

103
REVIEW OF THE PRESIDENT'S SUPPLEMENTAL AGREEMENTS TO
THE NORTH AMERICAN FREE-TRADE AGREEMENT AND AN
UPDATE ON THE URUGUAY ROUND OF THE GATT NEGOTIA-
TIONS

(Ambassador Mickey Kantor)

Y 4. AG 8/1:103-10

Review of the President's Supplen...

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

MARCH 17, 1993

Serial No. 103-10



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REVIEW OF THE PRESIDENT'S SUPPLEMENTAL AGREEMENTS TO THE NORTH AMERICAN FREE-TRADE AGREEMENT AND AN UPDATE ON THE URUGUAY ROUND OF THE GATT NEGOTIATIONS

WEDNESDAY, MARCH 17, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The committee met, pursuant to notice, at 10:05 a.m., in room 1300, Longworth House Office Building, Hon. E (Kika) de la Garza (chairman of the committee) presiding.

Present: Representatives Brown, Rose, English, Glickman, Stenholm, Volkmer, Penny, Johnson, Sarpalius, Long, Condit, Peterson, Dooley, Clayton, Minge, Hilliard, Inslee, Barlow, Pomeroy, Holden, Baesler, Thurman, Bishop, Lambert, Roberts, Gunderson, Lewis, Smith, Combest, Allard, Barrett, Nussle, Boehner, Doolittle, Goodlatte, Dickey, and Canady.

Also present: Representative Crapo.

Staff present: Vernie Hubert, chief counsel and legislative director; Joseph Muldoon, associate counsel; William E. O'Conner, Jr., minority policy coordinator; John E. Hogan, minority counsel; Glenda L. Temple, clerk; Anita R. Brown, Joe Dugan, Xavier Equihua, and Lynn Gallagher.

OPENING STATEMENT OF HON. E (KIKI) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The CHAIRMAN. The committee will be in order.

We will abide by the usual practice. Unfortunately we had a caucus earlier and the names may not have been noted. So if the clerk will at this time note the members who are here in order that we may accommodate them accordingly in the question period.

This morning we meet in order to be briefed by Ambassador Kantor on the progress, or lack of progress, both with the Uruguay Round of GATT and with the North American Free-Trade Agreement.

Mr. Ambassador, we welcome you. We appreciate your cooperation and, most of all, your availability to me and to the members of this committee. What you do is of great importance to America and to American agriculture, and certainly to all the members of this committee and the Members of the House.

We know the most difficult task that you face. We want to be fully knowledgeable not only in the process but in your endeavors

as you work for us as our spokesperson and representative. If we fully acquaint you with our concerns and needs and if we are acquainted with your endeavors, I think that it will be a very productive participation from your end, and certainly it will be very helpful to us.

So again, we welcome you to this committee. We hope that your availability will continue, as you have privately stated to us, which we very much appreciate. Anything that we can do as a committee or individually or collectively to work with you and assist you, we are here at your call.

Also, any prepared statements from the members will be placed at this point in the record.

Thank you.

[The prepared statements of Mr. de la Garza, Mr. Sarpalius, Mr. Condit, Mrs. Clayton, Mr. Lewis, Mr. Barrett, Mr. Nussle, Mr. Canady, and Mr. Crapo follow:]

Statement by Rep. Kika de la Garza, D-TX
Chairman, House Agriculture Committee

Hearing on Proposed Supplemental Agreements to NAFTA
and Update on Uruguay Round of GATT Negotiations
Wednesday, March 17, 1993

Today's hearing focuses on the Administration's effort to negotiate supplemental agreements to the proposed North American Free Trade Agreement on environment, worker rights, and import surge safeguards. Those negotiations begin today, and we are pleased that the U.S. Trade Representative is able to be with us to discuss the Administration's priorities and objectives in this process.

As Ambassador Kantor and all of us realize, a lot is riding on the outcome of these negotiations. For many in this Congress, support for the yet-to-be-drafted implementing legislation to the main text for NAFTA is dependent on what is included in these supplemental agreements. The President himself has made clear that his own support for NAFTA hinges on these supplemental agreements.

The negotiations that begin today offers more than just a chance to strengthen the political support for NAFTA. The supplemental agreements give us the opportunity to link the benefits of free trade with other societal objectives -- better protection of the environment, funding for basic border infrastructure needs, enhanced worker rights, and improved safeguards for import-sensitive industries in all three countries. I think these are worthy objectives.

This Committee has an interest in all three areas of negotiation, with the environment and import surge agreements of particular importance to certain segments of American agriculture. You can expect to hear a lot from us collectively and individually about the concerns of our constituents who feel that NAFTA will have a negative effect on their industries. We want to ensure that you are sensitive to their concerns -- and ours -- and that perhaps you can try to address their concerns in the negotiations for the supplemental agreements.

Because of the South Texas district I represent, I am personally very interested in the supplemental agreement for the environment. It is my hope that the environmental agreement can serve to improve the quality of life for the millions of people who live along our 2,000-mile land border with Mexico and to promote better stewardship and protection of the region's natural environment -- its air, soil and water resources. I would also hope the environmental agreement would seek to better protect the quality of our other "border" with Mexico, that is the Gulf of Mexico.

In addition, we have asked Ambassador Kantor to give us a sense of what the Administration's intentions are with respect to reviving the Uruguay Round of negotiations under GATT.

This Committee has followed the ups and downs of the Uruguay Round for more than six years now and many of us have become quite frustrated and disillusioned by the lack of progress. It is my hope that you, Ambassador Kantor, and this Administration can somehow bring about a successful conclusion to the Uruguay Round that will open export markets for the entire U.S. economy and our agricultural sector in particular.

I welcome Ambassador Kantor to his first public hearing before the Committee and look forward to working with you in the coming months on these and other trade issues important to American agriculture.

QUESTIONS FROM CHAIRMAN DE LA GARZA AND USTR'S ANSWERS
Treatment of Peanuts in the NAFTA

Q. Learning from their experience whereby the Canadian Free Trade Agreement has resulted in a flood of peanut products made from Argentina and Chinese peanuts coming into this country, do you agree that the proposed Mexican Free Trade Agreement would limit any imports of peanuts or peanut products to those of Mexican origin? It is my understanding from earlier hearing before this committee that the then Administration was willing to agree to this provision.

A. To be eligible for the preferential duty, paragraph 10 of Annex 703.2 of the NAFTA requires that all peanuts imported into the United States from Mexico be harvested in Mexico. Likewise, peanut products imported into the United States from Mexico must be made from peanuts harvested in Mexico to be eligible for the lower duty. Peanuts and peanut products imported into the United States from Mexico which do not qualify for the NAFTA preference will continue to be subject to existing tariffs and other restrictions that presently apply.

Q. It is my understanding that under current law and the proposed NAFTA treaty, that the re-imports of exported U.S. additional peanuts is prohibited. To insure this understanding with the NAFTA, would you object to our adding this prohibition to the implementing legislation? It is my understanding from earlier hearing before this committee that the last administration had no objection.

A. The NAFTA does not prohibit re-imports of exported U.S. additional peanuts from Mexico. Legislation which would establish such an import prohibition would be unnecessary and inconsistent with the NAFTA. As stated above, the Agreement requires that peanuts imported into the United States from Mexico be harvested in Mexico to receive the NAFTA tariff preference. Peanuts imported into the United States from Mexico which were not harvested in Mexico, including the re-import of additional peanuts or products made from such peanuts, will continue to be subject to existing restrictions. In that connection, the United States retains its authority to assess substantial penalties on handlers for importing peanut products made from U.S. additional peanuts.

Q. Under U.S. law, U.S.-produced peanuts must meet strict quality and grade standards. Would you object to our adding to the implementing legislation requirements that imported peanuts meet the same standards? It is my understanding from earlier hearing before this committee that the last administration had no objection.

A. Nothing in the NAFTA will prevent the U.S. Food and Drug Administration, or other U.S. regulatory agencies, from inspecting at the border to ensure compliance with human, animal, and plant health standards. The NAFTA requires that sanitary/ phytosanitary measures have a scientific basis and be no more rigorous for imported product than for domestically produced items. In that regard, a provision calling for inspection for aflatoxin in peanuts imported from Mexico to be just as rigorous as that for domestically produced peanuts would not be inconsistent with the Agreement.

Q. I understand that you are working on surge protection to help the sugar industry adjust to the proposed NAFTA. Would peanuts, and other commodities such as livestock and wool, be covered by these provisions if you are successful in working them out?

A. The import surge side agreement is not expected to be commodity specific. It would apply to all products covered by the NAFTA, including sugar, livestock and wool. Our objective in this regard is not to change the mechanisms in the NAFTA, but rather to ensure that these provisions can be effectively and fairly used by all sectors. In crafting this agreement, we will be cognizant of the fact that our exports are a much larger share of the Mexican and Canadian markets than are their exports to our much larger economy. Accordingly, we must be attentive that we do not inadvertently create unwarranted obstacles to the growth of our own exports. We envision that a Safeguards Committee would be established under this side agreement to examine trade and employment trends at the request of any party to assess the likelihood of safeguard actions. The Committee would be composed of government officials of each NAFTA party and would report to the NAFTA Trade Commission (the trade ministers of the respective countries).

OPENING STATEMENT
THE HONORABLE BILL SARPALIUS

HOUSE AGRICULTURE COMMITTEE
HEARING ON NAFTA AND GATT
MARCH 17, 1993

Thank you Mr. Chairman, and welcome to our distinguished witness, Trade Ambassador Mickey Kantor. It is truly a pleasure to have you here today to discuss two topics of great importance to the American economy, the North American Free Trade Agreement and the Uruguay Round of the General Agreement on Tariffs and Trade.

While GATT has its own distinct set of problems, especially concerning the opposition of American policies by French farmers in the European Community, NAFTA offers us, both in the Congress and the Administration, the opportunity to formulate and shape policy that will directly affect the American economy for many years to come. I am both excited and cautious about this particular policy, and I hope that we will be able to work together to critically and thoroughly analyze the impacts of NAFTA.

While NAFTA is projected to be a benefit for a great deal of agriculture in my district, I have several concerns that I feel need to be addressed. Wheat trade has suffered since the U.S. - Canada Free Trade Agreement and there is no indication that these issues will be dealt with in NAFTA. The issues of end use certificates and Canadian rail subsidies are of central concern to American wheat producers, and I feel that is our obligation and our duty to investigate these concerns, along with those of sugar, fresh fruits, vegetables, and other adversely impacted commodities.

The three side agreements proposed by President Clinton will be an excellent means of addressing these concerns, and I look forward to hearing your thoughts on these matters, and working with you to ensure that the agreement will be of benefit to all of the American economy. This must be our purpose in this matter.

I thank you, Ambassador Kantor, for coming before this Committee to address these concerns, and I look forward to hearing your testimony.

OPENING STATEMENT
BY
CONGRESSMAN GARY A. CONDIT
HOUSE COMMITTEE ON AGRICULTURE
HEARING ON PROPOSED
U.S. - MEXICO FREE TRADE AGREEMENT
MARCH 17, 1993

Mr. Chairman, I would like to take this opportunity to thank you for holding this hearing on the important subject of the North American Free Trade Agreement. As you know, I have concerns about the impact of such an agreement on the economy of my state and my congressional district. To this end, I look forward in hearing Ambassador Kantor's views on this historic trade accord.

The U.S. agriculture industries I believe most at risk are the fruit and vegetable industries. The implications for California agriculture are obvious. Agricultural trade between the U.S. and Mexico is almost perfectly balanced. In 1991, the U.S. reported nearly \$3 billion worth of agricultural exports to Mexico. Mexico, in turn, exported \$2.5 billion in agricultural products to the United States. The picture dims however when the products shipped between the two countries are more closely examined. The majority of U.S. exports to Mexico include bulk feed grain and livestock products. The primary agricultural exports from Mexico to the U.S. are horticultural products. It is safe to say the horticultural products which are grown in the U.S. will experience the greatest competition from Mexican producers. But even in this instance, the

impacts would be uneven. California producers of avocados, and winter vegetables would face stiffer competition in both domestic and Canadian markets. On the other hand, California processors of deciduous fruit and producers of high-value and value-added specialty products might gain from economic growth and an expanded market in Mexico estimated to be 360 million consumers.

In the 1992 presidential campaign, President Clinton promised to negotiate two side agreements to the NAFTA: one each on environmental and labor issues. Since the election, President Clinton has also indicated he wants a side agreement on import surges. Agriculture, especially the fruit and vegetable sectors, have expressed the need for some type of protection from Mexico for sensitive crops -- in essence, import surge protection. It is my hope that Ambassador Kantor will address these issues today.

I also have concerns for the sugar provision as written. This agreement was negotiated by the previous administration, many of whom are still in their positions. I think, Mr. Ambassador, that we should take a long, careful look at this agreement and correct those things which are unfair to sugar farmers. Much has been said about "side agreements." I endorse that concept and trust you will strongly consider using that tool to "fix" the proposed agreement.

I am very concerned about the impact of the North American Free Trade Agreement (NAFTA) on the economy of the Central Valley. I have yet to be convinced that this agreement will serve the needs

of the agriculture community and nation as a whole. As you know, the Central Valley economy is enormously dependent on agriculture. Without agricultural production, all sectors of our economy will suffer. I would hope that the Agriculture Committee will continue to look at this agreement closer during the upcoming months to see what it really means to the nation's agriculture community.

PREPARED STATEMENT OF HON. EVA M. CLAYTON

Opening Statement for Full Committee Hearing on NAFTA

Wednesday, March 17, 1993

Thank you Mr. Chairman. I would like to extend a warm welcome to Ambassador Kantor for coming to the Agriculture Committee. We appreciate the resolve of Mr. Kantor in securing fair and productive trade agreements which enhance the prosperity of U.S. export industries. This is especially true in regards to American agriculture. Further, I would like to thank Mr. Kantor for his commitment in attaining fair and equitable trade between the United States and other countries.

Recently, I had an opportunity to meet with several agricultural commodity groups that have voiced their concerns about the North American Free Trade Agreement and how it may affect their footing in the U.S. domestic market. Today, I hope that Amb. Kantor can shed some light on the direction that the Administration is taking in regard to the supplemental agreements which will soon be negotiated.

It is my sincere desire to see a fair settlement in regards to the labor and the environment as well as putting safeguards on the problem of import surges. These points create real concern for not only the people of my congressional district, but for all Americans who might be adversely affected by NAFTA as it exists in its current form. I hope that you can speak to this problem.

Finally, I want to address the problem of the point of origin regulations inherent in NAFTA. The fear that specific industries have regarding the point of origin of certain agricultural commodities is very real. I know that you will address this concern in a thorough fashion.

Thank you.

STATEMENT OF
THE HONORABLE TOM LEWIS

MARCH 17, 1993

Ambassador Kantor, I appreciate your being with us here this morning to discuss two very important issues to the Committee.

I am pleased that President Clinton has recognized the need to take significant additional steps through side agreements to enhance the current North American Free Trade Agreement.

As you are well aware, I and most of my colleagues from the Florida Congressional delegation are deeply concerned about the impact of the North American Free Trade Agreement on Florida's \$6.2 billion agriculture industry, the second largest in the State.

The Administration's consideration of environmental, labor and import surge side agreements to NAFTA presents a window of opportunity to address our concerns. We are hopeful that we will have the opportunity to work to obtain the necessary changes to make NAFTA work for Florida.

Make no mistake, I believe NAFTA has potential long-term benefit to the United States. A 360 million consumer trading bloc and \$6 trillion market cannot be ignored. However, just as apparent is the short-term expense of NAFTA borne in large part by Florida agriculture.

These losses are clearly documented beginning with the 1991 International Trade Commission Report. ITC found that Mexican producers are able to supply the U.S. market with many of the same horticultural products grown and processed in the United States at a much lower cost. The report also found that U.S. citrus and winter vegetable growers can expect to experience losses in production.

Florida is responsible for providing more than one half of our nation's fruit, vegetable, citrus and cane sugar during winter months. In my view it is not unreasonable to insist that NAFTA contain proper safeguards to guarantee fair competition between Mexico and the United States.

I am hopeful we can address some of these concerns this morning. Again, Ambassador Kantor, welcome to the Committee.

QUESTIONS FOR THE RECORD
FROM HONORABLE BILL BARRETT
TO AMBASSADOR KANTOR

Ambassador Kantor, under the current sugar provisions, both Mexico and the United States would adopt TRQ's (Tariff Rate Quotas) so that all restrictions on sugar trade would be eliminated by the end of a 15 year transition period. In the first six years of the agreement, Mexico's sugar exports would be limited to its current quota allocation of 7,258 metric tons. If Mexico attains net exporter status during this six year period, it would be allowed to export its net surplus up to a total of 25,000 tons. From year seven to fifteen, Mexico would be allowed to export up to 150,000 metric tons of its net export surplus to the US.

1. Q. Mr. Kantor, under this provision, would Mexico need only be projected to be a "surplus producer" of sugar for two consecutive years to be able to send the U.S. its entire surplus of sugar after the sixth year of the agreement?

A. The projection would only apply to the upcoming crop year. As in the case of most USDA program crops, we are interested in production and trade of the upcoming crop. The administration of the U.S. sugar program is based on projections of the U.S. and world sugar situation. Under NAFTA, we will simply include projections for the sugar supply and use situation in Mexico.

Any errors in U.S. or Mexican sugar projections will be corrected. As provided for in the agreement, each year the net surplus producer estimate will be adjusted for the previous year's under- or over-estimate.

2. Q. Mr. Ambassador, if Mexico is a net importer of sugar and its producers are higher cost and more subsidized than U.S. producers why are we providing Mexico virtually unlimited access to the U.S. market after 6 years?

A. Both Mexico and the United States are net importers of sugar and are expected to maintain that status for the foreseeable future. Mexico is a higher cost producer, but Mexican producers are not more heavily subsidized than their U.S. counterparts.

In the NAFTA, the U.S. and Mexico have committed to a complete elimination of all agricultural trade barriers -- tariff as well as non-tariff -- for all commodities. There are no exceptions. The sugar provisions of the NAFTA are unique within the Agreement and unusually tough because access for sugar is tied to the ability of each nation to become a net surplus producer of sugar. Mexico can only reach net surplus producer status with substantial investment and time. Given its growing population

and relative large per capita consumption of sugar, it is unlikely that Mexico will reach that status in the foreseeable future.

3. Q. Mr. Kantor, do you anticipate Mexican substitution of High Fructose Corn Syrup (HFCS) for sugar in its large soft drink industry as a result of the encouragement to achieve surplus producer status provided in the NAFTA?

A. We do not anticipate significant Mexican substitution of HFCS for sugar in the Mexican soft drink industry in the foreseeable future. At present, neither the economic nor dietary incentives for switching from sugar to other sweeteners are present in the Mexican market. Also, NAFTA is unlikely to provide sufficient economic incentives to bring about large-scale substitution of HFCS for sugar.

The U.S. and Mexican sugar price at the producer level is roughly the same. Therefore, there is no large price advantage for Mexican producers to gain by shipping sugar to the United States, especially considering transportation charges and infrastructure constraints. Additionally, HFCS is not manufactured, nor widely used, in Mexico. Currently, 5 companies in Mexico operate 7 corn wet mills producing traditional products such as corn starch, glucose syrup, dextrose, and corn oil. These facilities are not equipped to produce HFCS. Major investment would be required to update these mills or construct new facilities.

Soft drink manufacturers, the primary user of sugar in Mexico, would have to make major investments to switch their production facilities from using sugar to HFCS. In addition to their investment, any conversion to HFCS in Mexico would involve major policy changes in Mexican corn imports (limited in the first 15 years of the transition period to a level that would restrain Mexican production of HFCS) and significant investment in Mexican HFCS facilities or new infrastructure to import large quantities of HFCS from the United States.

4. Q. Won't Mexico have a 1-2 million-ton sugar surplus to ship to the US just by converting their domestic beverage industry from sugar to corn sweetener, as the NAFTA would provide enormous incentive to do so?

A. We expect that shifts in the industry will continue to be driven by economic factors. For the reasons stated above, it is unlikely that there will be a major shift from sugar to HFCS in Mexico in the foreseeable future.

5. Q. Would these conversions have an impact on the US corn market or US corn production?

A. In the near term, any additional use of HFCS in the Mexican market would probably come from product imported from the United States, since Mexico currently has no facilities for producing

HFCS. In the longer term, if Mexico were to develop HFCS production capacity, it would inevitably have to depend on U.S. corn as its raw material source.

6. Q. How can you verify future claims by Mexico that it has achieved net exporter status? How can you verify that it is not "substituting" -- importing foreign sugar for domestic use and shipping Mexican sugar to the US? How can you verify Mexico is not "transshipping" -- importing foreign sugar and shipping to the US as if it were Mexican sugar? What's to stop Mexico from exporting all their domestically grown sugar to the US and importing sugar for their own use?

A. We will be meeting with Mexico to compare production, consumption, and stock data. Over the last 20 years, USDA has developed a robust data series on the Mexican sugar market which we will use to compare with the Mexican data. The United States will also have the right "to observe and comment on the methodology" Mexico uses to prepare its data. The United States will be completely assured that Mexico is indeed a net surplus producer before we accept that claim.

The NAFTA sugar component contains measures expressly designed to prevent substitution and transshipment. NAFTA rules of origin for sugar have been constructed to prevent Mexico from becoming an export platform for either raw or refined world sugar. World sugar refined in Mexico is not eligible for the NAFTA preference. Also, by the end of the sixth year of the transition, Mexico is required to adopt the same tariff level on sugar from non-NAFTA countries as the United States maintains. From that point on through the transition, a common U.S.-Mexico tariff on sugar, together with the provision which links access to net surplus producer status, will eliminate any incentive for transshipment or substitution.

7. Q. In regards to the import surge side agreement, would this include sugar provisions? Would the US sugar industry gain further protection through this side agreement?

A. The side agreements are still being negotiated. Therefore, it may be premature to indicate what will or will not be in these agreements. However, we have made no product-specific proposals at this time. Our current proposal is largely procedural in nature. We want to make sure that the safeguard provisions already contained in the NAFTA are well understood. In addition, we are looking at procedures which could provide an early warning of the need for safeguard actions. In this regard, a Safeguards Committee would examine trade and employment trends at the request of a party to assess the likelihood of safeguard actions. In addition to the safeguards that are already incorporated in the sugar provisions of the NAFTA, the agreement has a general safeguard which is available to the sugar industry or any other import-sensitive industry. Depending on its final content, the side agreement on import surges could facilitate access to the

general safeguard for sugar and other import sensitive commodities.

8. Q. What is the time table of this side agreement?

A. We hope to conclude successfully the side agreements by early summer.

Under the dry edible bean proposed agreement, the U.S. would eliminate the 1.1-1.3 cent per kilogram tariff on dry beans imported from Mexico. In return, Mexico would implement a transitional (TRQ) for dry beans for 15 years, and assure US duty-free access to the Mexican market for 50,000 metric tons annually.

Enclosed is a letter from a constituent of mine regarding the US dry beans provisions. I would appreciate your comments regarding his concerns.

A. Mr. Kelly sent a similar letter to us. In the NAFTA negotiations, we placed our most trade sensitive items in the 15-year phase out category and Mexico did too. Dried beans was one of the commodities for which Mexico insisted on a 15-year phase-out of import restrictions. Mexico does not apply tariffs to U.S. dry bean exports but maintains a restrictive licensing system. Under the NAFTA, Mexican import licenses will be eliminated immediately, substituted by a tariff rate quota. Initially, no tariffs will be applied to the first 50,000 metric tons of U.S. bean exports to Mexico. This duty-free quantity will increase by 3 percent each year while the over-quota duty will be reduced to zero during the 15 year-transition period.

The tariff rate quotas developed in the NAFTA negotiations were based on both U.S. and Mexican official trade data. In 1990, the United States exported 153,000 tons of dry beans to Mexico. In 1991, we exported 38,000 tons, and, in 1992, we exported 27,548 tons.

Neither the NAFTA nor the U.S.-Canada Free Trade Agreement (CFTA) address domestic subsidies. This topic has been reserved for discussion in the Uruguay Round multilateral trade negotiations of the General Agreement on Tariffs and Trade.

Under the CFTA, Canada excludes agricultural products shipped through western Canadian ports for consumption in the United States from transport rates established under the Western Grain Transportation Act. With regard to subsidized exports of Canadian dried beans into the Mexican market, the NAFTA does not preclude the United States from countering Canadian subsidies in the Mexican market.

9. Q. Mr. Ambassador, Canada currently controls about 75 percent of the Mexican wheat market. This is largely due to Canadian rail subsidies and the tricks that are played by the

Canadian Wheat Board.

Does the NAFTA address any of these problems?

If not, does the Administration plan to address any of these problems through the side agreements?

A. The agricultural chapter of the NAFTA essentially represents two bilateral agreements -- one between the United States and Mexico and the other between Canada and Mexico. There were no discussions between the United States and Canada on any agricultural market access issues. This is primarily because of Canadian reluctance to address these issues in a comprehensive fashion. The NAFTA, therefore, does not address problems in wheat trade across our northern border. Trade in agricultural goods between the United States and Canada will continue to be governed by the rules of the U.S.- Canada Free Trade Agreement.

Canadian Wheat Board sales of durum wheat into the U.S. market have recently been the subject of high level discussions between U.S. and Canadian officials. We recognize the seriousness of this situation and are committed to dealing with it in a bilateral context. With regard to subsidized exports of Canadian wheat into the Mexican market, the NAFTA does not preclude the United States from countering Canadian subsidies in the Mexican market.

10. Q. Mr. Ambassador, you've indicated your desire to extend FAST-TRACK and revive the GATT talks. Can you give me some indication as to what direction the Administration plans to take with the GATT talks?

A. Enclosed are press releases issued by the White House and USTR announcing the President's decision to request an extension of "fast track" authority. Also, we are enclosing the formal proposal which was sent to the Congress on April 27.

11. Q. Does the Administration plan to push for export subsidy cuts in the EC?

A. The Uruguay Round agreement on agriculture will include a provision requiring multilateral export subsidy reductions. Assuming the Blair House agreement are formally accepted by Uruguay Round participants, the outcome would be export subsidy reductions of 21 percent in volume and 36 percent in expenditure levels over six years. Since the agreed upon base period for export subsidy reductions is 1986-1990 and the current level of EC export subsidies is substantially above the base, the real reduction for the Community from present levels will be substantially more than suggested by the Blair House agreement.

12. Does the Administration plan to push for further cuts in the EC's internal supports?

A. The current Uruguay Round text on agriculture, as modified by the Blair House agreement reached between the United States and the EC, calls for a 20 percent reduction on an aggregate basis over six years, using 1986-88 as the base. Direct payments that are appropriately linked to production-limiting programs will not be subject to the reduction commitment if certain conditions are met (for crops: fixed acreage base/fixed yields or payments made on less than 85 percent of base level production; for livestock: fixed number of livestock head). All Uruguay Round participants, including the EC, must comply with these commitments.

13. Q. It seems to me that past GATT talks have focused to merge the US and EC farm programs and payments with hopes to find level ground. In the US we have supply management, in the EC we have production, production, production. Many of the grain companies would like to see the US move toward production, production, production. Some farmers and others are satisfied with supply management programs and would like to see the EC pattern their programs after ours. How do you see the Administration approaching this?

A. We view the Uruguay Round not as an exercise to harmonize U.S. and EC agricultural policies, but as effort to reform agricultural trade on a global basis. Considerable progress has been made in developing multilateral rules and disciplines for domestic support programs and agricultural export subsidies, but more work is needed in the area of agricultural market access.

Kelley Bean Co.

BEANS & PEAS
ALL VARIETIES IN BULK AND PACKAGES
Merrill, Nebraska

69358

March 16, 1993

Congressman Bill Barrett
1213 Longworth HOB
Washington D.C. 20515

Dear Congressman Barrett:

I want to personally thank you for taking your valuable time and attending the Congressional Reception that the National Dry Bean Council had at our recent Washington meeting. Your support of the dry edible bean industry of Nebraska is always appreciated.

I understand that U.S. trade representative Mickey Kantor will be appearing before the House Agricultural Committee this afternoon discussing NAFTA. As I have expressed to you personally several times over the past year, if the NAFTA agreement is not side barred for agriculture with specific protection for dry edible beans we will be in deep trouble just as the sugar beet industry but for different reasons.

At the meeting in Washington, the National Dry Bean Council (representing all growers and processors in the U.S.) went on record with a unanimous resolution opposing the NAFTA agreement as written but in support of free trade. Why is the NAFTA Agreement wrong for dry edible beans?

1. The USDA did not seek input of the industry.
2. The negotiators failed to address the Canadian rail subsidy which will be used to cross the U.S. into Mexico.
3. And this is the big one. They used only the sales to the Mexican government (Conasupo) for export numbers but they failed to address the day to day bean sales that go across the border. Up to two million cwt of Pintos each year (25% of what is considered to be U.S. domestic consumption).
4. They did not address the unilateral subsidy to the Mexican grower (\$31.00 U.S. per cwt on Pinto beans - compared to \$27.50 for U.S. Pintos cleaned and bagged delivered to the Mexican border). The U.S. grower gets no subsidy on dry beans.
5. They made the phase out on the TRQ (Tariff Rate Quota) too long - fifteen years.

We, the dry edible bean industry would recommend that the side bar agreement contain the following and this is backed up the resolution of the National Dry Bean Council representing all growers and processors in the entire United States:

1. Fast track the phase out, 2-5 years and not fifteen.
2. Raise the quote allowed without a tariff from 50,000 metric tons to 150,000 metric tons per year. If nothing else, this will allow our day to day business to cross the border without tariffs.

Telex 438

Post-It™ brand fax transmittal memo 7571		# of pages 2	
To	Mark Brase	From	Gary L. Kelley
On	Barrett's office	Co.	Kelley Bean Co.
Dept.		Phone #	308 247-2101
Fax #		Fax #	308 247-2213

PAGE 2 KELLEY BEAN CO., INC., MORRILL, NEBRASKA

3. Cut or do away with the Mexican subsidy to their grower.
4. Do not allow the Canadians to use their freight subsidies across the United States into Mexico.
5. And last but not least the most important: Open the border immediately for day to day business to cross without the tariffs that exist today.

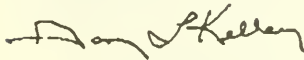
Mr. Barrett, we appreciate your support. If you have any questions or need data to support my letter, please contact:

Mr. Phil Kimball, Executive Director
National Dry Bean Council
1101 Connecticut Ave. NW, Suite 700
Washington D.C. 20036

Thank you for your support of the Nebraska bean producers.

Very truly yours,

KELLEY BEAN CO.



Gary L. Kelley
President

cc: Bill Bolster, President, National Dry Bean Council
Phil Kimball, Executive Director, National Dry Bean Council
Nebraska Dry Bean Commission
Elizabeth Berry

STATEMENT OF THE HONORABLE JIM NUSSLE

HEARING ON THE NORTH AMERICAN FREE TRADE AGREEMENT
MARCH 17, 1993

Thank you Mr. Chairman for calling this hearing today. And thank you Ambassador Kantor for coming here to share the Administration's views on the North American Free Trade Agreement.

There has been a good deal of public speculation recently about the success of a NAFTA and whether Congress will support the current agreement. I support the NAFTA as it currently stands because I believe the long-term benefits of the current proposal are extremely positive for the United States.

As we move toward a global economy, promoting free and fair trade among the United States, Canada and Mexico must be a critical component of our economic plan. I might also add that coming from the State of Iowa, where sales to Mexico and Canada account for more than one-third of Iowa's total exports, the NAFTA is especially important. Moreover, NAFTA also opens the door for increased exports of value-added products, which will help many states like Iowa increase its value-added exports which are so important to our nation's domestic economy.

Finally, I look forward to hearing more details this morning on the supplemental agreements for labor, environment and import surges that the Administration plans to begin negotiating. I would caution the Administration, however, not to push for any supplemental agreements that would seriously undermine the NAFTA proposal currently on the table.

Thank you again Mr. Chairman for holding this hearing today.

CHARLES T. CANADY
12th DISTRICT, FLORIDA

COMMITTEE ON AGRICULTURE
DEPARTMENT OPERATIONS AND NUTRITION
FOREIGN AGRICULTURE AND HUNGER

COMMITTEE ON THE JUDICIARY
CIVIL AND CONSTITUTIONAL RIGHTS
ECONOMIC AND COMMERCIAL LAW
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Congress of the United States

House of Representatives

Washington, DC 20515-0912

STATEMENT OF CONGRESSMAN CHARLES CANADY
of Florida
before the House Agriculture Committee
March 17, 1993

Mr. Chairman, As the Committee moves to review the provisions of the proposed North American Free Trade Agreement, we must carefully scrutinize the trade pact to ensure that America's agriculture producers are not put at an unfair disadvantage in the global market place. Florida's \$6.2 billion agriculture industry will be subject to a major trade agreement that, while helping other sectors of agriculture across the country, could devastate Florida agriculture as we know it.

High-tech, labor intensive production is at the heart of Florida agriculture. Because of this, our growers are greatly burdened by the cost of government regulations. Our producers must comply with labor laws, environmental laws, transportation laws and numerous other government regulations that place an added cost on producers that many estimate to be 30-percent of the production costs. Government has added that 30-percent to the cost of agriculture production, in order to guarantee the American consumer that U.S. products are safe and nutritious. Mexican producers face a far different government and regulatory environment.

Mr. Chairman, this is not a question of whether Florida fruit and vegetable producers can compete with imports from Mexico, Canada or any other country. This is a question of whether they will be allowed to compete. Our producers have spent millions of dollars to transform their operations into the most efficient, streamlined operations in the world. Let us not lose sight of this success in our efforts to reach a trade agreement.

I look forward to hearing the testimony of Ambassador Kantor today and hope that as the Administration moves through the construction of the implementing language and the negotiation of the side-agreements, they will take into consideration that Florida's producers, as well as America's producers, currently produce the safest, most abundant food supply in the world. I will not support an agreement that does not address the built in competitive disadvantages our producers currently face. Without properly addressing those disadvantages, the 30-percent of production costs I spoke of earlier will be turned into a 30-degree tilt in the international playing field and that tilt will not be in our favor.

Thank you Mr. Chairman.

QUESTIONS FROM CONGRESSMAN CHARLES CANADY

Q. Ambassador Kantor, I am concerned about the regulations that the U.S. government has placed on the American agriculture producer in order to guarantee that the commodity produced is safe and nutritious. We have heard that Mexico has Sanitary and Phytosanitary standards that are comparable to America's. Also the pesticide regulations and environmental standards are similar. However, the enforcement structure is not in place to ensure that production tools that are banned in the United States because of health and safety concerns, are not being used in Mexican agricultural production. How will the NAFTA agreement provide guarantees that imported citrus products, tomatoes etc. are being produced in a manner that meets American standards?

A. All food products imported from Mexico -- or from any other country -- must comply with Environmental Protection Agency (EPA) tolerance regulations for residues in food and with all other U.S. regulatory agency requirements. The NAFTA will not change any of these requirements.

The U.S. Food and Drug Administration (FDA) and the U.S. Department of Agriculture (USDA) (for meat, poultry and eggs) have primary responsibility for monitoring imports for compliance, and for taking enforcement action. These inspection and enforcement functions will in no way be weakened by NAFTA.

Q. What process will be established to monitor pesticide use? In the case of EBDC's it was proven that residue levels at the farm gate were much higher than in the market basket study which showed basically undetectable levels. There are many pesticides that are banned in the U.S. that can be used by Mexican producers. Given the make-up of the product, no residues will be discovered by the time the product reaches the inspection sight at the border. Are we going to set up a new inspection and monitoring process through this agreement to address this problem?

A. Because of the large volume of imported foods coming from Mexico, FDA devotes a substantial portion of its monitoring efforts to Mexican products. For example, more than a quarter of the imported food samples collected by FDA annually for pesticide residue surveillance are from Mexico. While FDA monitoring reports indicate that Mexican compliance has tended to improve over the years, the violation rate for Mexican produce is generally higher than the violation rate for domestic produce tested by FDA.

2.

Because of the increased amount of Mexican produce entering the U.S. and related concerns about the violation rate for that produce, U.S. and Mexican officials are working together to (1) analyze and resolve, to the extent possible, differences in pesticide residue standards between our two countries and (2) discuss ways to educate Mexican growers on U.S. import regulations. This unprecedented joint initiative by U.S. and Mexican regulatory authorities is expected to significantly narrow the differences that exist and reduce the violation rate for Mexican produce. The project is indicative of an overall improvement in cooperation and communication between North American environmental protection/pesticide enforcement agencies. Sparked by the prospect of NAFTA, closer coordination between North American regulatory authorities on pesticide issues will strengthen enforcement and enhance consumer and environmental protection throughout the region.

USTR/LC 9-10-93

Statement Submitted by Congressman Michael D. Crapo

MR. CHAIRMAN:

MR. KANTOR:

I WANTED TO THANK YOU FOR APPEARING BEFORE THIS COMMITTEE ON THE ISSUE OF THE NORTH AMERICAN FREE TRADE AGREEMENT. IT IS AN IMPORTANT ISSUE WITH MANY RAMIFICATIONS FOR MY CONSTITUENTS. WHILE I BELIEVE THAT MOST AMERICAN COMPANIES AND BUSINESS HAVE MUCH TO GAIN FROM THIS AGREEMENT, I HAVE SERIOUS CONCERNS REGARDING THE SUGAR PROVISIONS OF THE AGREEMENT. IF PASSED IN ITS PRESENT FORM, THE AGREEMENT COULD CAUSE SERIOUS DAMAGE TO THE U.S. SUGAR INDUSTRY.

IDAHO, AS YOU MAY KNOW, IS AN IMPORTANT SUGAR PRODUCING STATE. THE SUGARBEET INDUSTRY, FROM PRODUCTION THROUGH PROCESSING, PROVIDES A SOLID ECONOMIC BASE FOR MY DISTRICT AND HELPS SUPPORT THE RURAL AREAS OF IDAHO THROUGH PROVIDING JOBS AND INCOME. I DO NOT WANT TO SEE THIS ECONOMIC BASE DAMAGED THROUGH IMPLEMENTATION OF AN AGREEMENT WHICH DOES NOT PROVIDE ADEQUATE SAFEGUARDS TO THE SUGAR INDUSTRY.

I BELIEVE THAT THE FOLLOWING MODIFICATIONS TO THE AGREEMENT ARE IN ORDER.

1. THE SURPLUS PRODUCER CALCULATION DEFINITION MUST BE EXPANDED TO INCLUDE THE CONSUMPTION OF CORN SWEETENERS. IT APPEARS THAT MEXICO COULD GENERATE A 1 TO 2 MILLION TONS SUGAR SURPLUS MERELY BY CONVERTING THEIR LARGE BEVERAGE INDUSTRY FROM SUGAR TO CORN SWEETENERS, AS OCCURRED IN THE UNITED STATES.
2. THE PROVISION GIVING MEXICO VIRTUALLY UNLIMITED ACCESS TO THE U.S. MARKET AFTER 6 YEARS IF IT IS PROJECTED TO ACHIEVE SURPLUS PRODUCER STATUS TWO CONSECUTIVE YEARS IS TROUBLESOME AND MUST BE DELETED.
3. THE PHASE-OUT OF SECTION 22 IMPORT PROTECTION ON REFINED SUGAR AND SUGAR-CONTAINING PRODUCTS FROM MEXICO OVER 10 YEARS MUST BE LENGTHENED TO 15 YEARS IN ORDER TO BE CONSISTENT WITH THE TRANSITION PERIOD FOR RAW SUGAR.

THESE BASIC AND FAIR MODIFICATIONS WILL DO MUCH TO DIMINISH THE LEGITIMATE CONCERNS OF THE IDAHO SUGARBEET GROWERS, THE SUGAR INDUSTRY IN IDAHO AND IN THE UNITED STATES.



STATEMENT OF MICKEY KANTOR, UNITED STATES TRADE REPRESENTATIVE, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Ambassador KANTOR. Thank you very much, Mr. Chairman. I appreciate your courtesies. I have enjoyed our private meetings and I enjoyed our executive session this morning.

I learn as I go from this committee, as well as other of your colleagues in both bodies, and I look forward to this relationship as I try to be your lawyer, as well as the President's lawyer, as we pursue these trade matters.

The CHAIRMAN. On this great day for the world, we welcome you—on St. Patrick's Day. We have the wearing of the green.

I had an Irish great-grandmother, so there's a wee bit of Ireland in me.

About this much.

Thank you very much, Mr. Ambassador. Do you have a statement? You may proceed as you see fit.

Ambassador KANTOR. Thank you very much, Mr. Chairman. I will submit my entire statement for the record and then pick out selected portions, if you don't mind.

The CHAIRMAN. Your entire statement will appear in the record as if delivered, and then you may proceed as you feel most comfortable.

Ambassador KANTOR. Mr. Chairman, I want to thank you in particular for your suggestions for a North American Commission on the Environment and subcommissions to address specific transport environmental problems. I appreciate your work on the complex problems facing the United States-Mexico border area and the Gulf of Mexico, which has sometimes been forgotten, as you know, Mr. Chairman, in this.

I know that we will have many opportunities to work together on these issues in the months ahead to find creative solutions, including dealing with the Good Neighbor Environmental Board, of which I know you were the author.

This morning I would like to place the NAFTA and the Uruguay Round in the broader context of the President's vision of economic growth, and also be available for any other questions about bilateral or other treaties or obligations or concerns that you or your members might have.

Our prosperity and that of our children depend on our ability to compete and win in a global market. Where trade policy is concerned, the United States will continue to champion open markets and expanded trade, but we will insist that the markets of other nations be open to our products and services, especially U.S. farm exports.

I would just note at this point, as all of you know, that fully 10 percent of our exports, \$42 billion in 1992, 30 percent of our agricultural production, was exported. It is a net winner for this country and therefore critical as we try to balance our exports and imports which, as you know, have not been in balance over the last 12 to 13 years.

We see our prosperity bound up with the prosperity of our trading partners, especially Canada, Europe, Japan, and Mexico. We will work with them to promote global growth, aid the development

of other less prosperous nations, and address the emerging issue of environmental protection, as the President noted in his American University speech.

The President has consistently affirmed his support for the NAFTA, provided it is accompanied by effective U.S. domestic policies and supplemented by domestic actions and supplemental agreements to address concerns regarding labor, the environment, and safeguards against import surges. Addressing these concerns does not mean renegotiating the NAFTA itself; our goal is, rather, to negotiate the necessary supplemental agreements and to work with the Congress to develop implementing legislation so that the NAFTA, the supplemental agreements, and domestic measures can be in place by January 1, 1994.

These supplemental agreements must break new ground in finding ways to raise workers' standards and environmental protection. In these areas we are committed to agreements that harmonize upward, not downward.

President Clinton is committed to the creation of a trilateral, or three-party, Commission on the Environment, and I look forward to hearing further views from the committee on how such a Commission might work.

I am also aware of this committee's concerns about adequate provisions to address surges of agricultural imports. We will not sacrifice substance for speed. We will not ask you to vote on NAFTA until the supplemental agreements are completed and you can judge how they strengthen the NAFTA. This administration will not come to the Congress for approval of the NAFTA without supplemental agreements that have real teeth, meaningfully advance their objectives, are concrete, and contain serious commitments, as an enhanced NAFTA package can contribute to the ability of our farmers to compete at home and abroad and can help improve working conditions, living standards, and environmental quality throughout North America.

After Japan, Canada and Mexico are our second and third largest markets for United States agricultural exports. Since 1986 United States agricultural exports to Mexico have nearly quadrupled, climbing to almost \$4 billion in 1992, and establishing Mexico as our fastest growing export market for farm-produced goods. In fact, our two neighbors accounted for more than 20 percent, \$8 billion, of U.S. agricultural exports in 1992.

The United States-Mexico agreement on market access represents a significant change in the status quo. Upon implementation of the NAFTA, tariffs and tariff-rate quotas will replace current nontariff barriers in United States-Mexico agricultural trade. Roughly half of United States-Mexico trade will be duty-free at the moment the agreement goes into effect; 9 years later, all agricultural tariffs between the United States and Mexico will be eliminated except duties on certain highly sensitive products. Barriers on U.S. imports of sugar, peanuts, orange juice, and a few fruits and vegetables will not be eliminated until the 14th year after the agreement takes effect.

At the same time, Mexico will eliminate its barriers on corn, dry beans, powdered milk, sugar, and orange juice.

The bottom line is that NAFTA should give U.S. agricultural producers significant opportunity in our fastest growing export market. We expect particular benefits for our exports of beef, pork, poultry, eggs, dairy products, grains, and oilseeds.

The NAFTA also contains strong provisions in chapter 7 safeguarding the ability of Federal and State governments to set the standards they deem appropriate to limit exposure to pesticide residues and other additives and contaminants.

President Clinton is committed to the successful completion of the Uruguay Round of multilateral trade negotiations, which has been ongoing since 1986. Several complex issues remain to be resolved. The Clinton administration, in consultation with the private sector and Congress, is focusing on the remaining obstacles to be overcome before the Uruguay Round is completed.

I think we can complete the Uruguay Round in a way that will benefit the United States and the world economy, but based on our discussions to date I do not believe that we were as close to completion as some reported in early January. When the EC Trade Minister, Sir Leon Brittan, was here in February, I told him that our goal was a good agreement, and not just a quick one.

By the way, I talked to Sir Leon just this morning, Mr. Chairman, and reiterated that concern. I will be in Brussels on the 29th of this month to begin those discussions.

Let me also indicate that about 45 minutes ago we began our discussions at the Deputy level with our Mexican and Canadian trading partners on the supplemental agreements.

The administration is carefully reviewing the agreement on internal support and export subsidies reached between the United States and the European Community at Blair House last November, and we must resolve with the EC a number of questions regarding the implementation by the EC of that agreement and the draft Uruguay Round text on agriculture.

The question of whether we can conclude an agreement depends very much on market access commitments for goods and services that are still being negotiated. If we obtain good results on market access—cutting tariffs, breaking down nontariff barriers—the Uruguay Round will offer significant potential benefits for the American farm community. The Department of Agriculture has estimated that a successful Uruguay Round agreement would expand United States agricultural exports by \$6 billion to \$8 billion annually after 5 years, and add \$1 billion to \$2 billion to farm income.

We chose to announce the administration's decision to seek the renewal of fast-track procedures when Sir Leon Brittan was here because the Uruguay Round depends, in the first instance, on U.S. and EC leadership in setting out the ambitious objectives to be achieved in areas such as market access. The 3-year deadlock between the rest of the world and the EC over agriculture stalemated the Uruguay Round and gave other nations, most notably Japan, the ability to avoid contributing meaningfully to the successful completion of the talks.

In this, Mr. Chairman, the EC and the United States are united in insisting that the Japanese take a more active part in these discussions.

While we work to conclude the NAFTA supplemental agreements and the Uruguay Round, we will continue to use our trade laws and the dispute settlement provisions of our trade agreements to open foreign markets and break down barriers to specific United States agricultural products. We have our share of current difficulties with the EC, which I will discuss with Sir Leon Brittan when we meet again later this month. We will continue to press the EC to implement fully the commitments it made to us on oilseeds, corn gluten feed, and malt sprout pellets. I will also meet on April 2 with Sir Michael Wilson, the Trade Minister of Canada, to discuss among other issues wheat, which I know some of the members of this committee are concerned about.

As this committee knows, we currently export over \$40 billion in farm products, as I noted before. That represents about 30 percent, as I said, of the total value of U.S. farm production. We are not a perfectly open market, of course, but because of history, practice, and our concern for maximizing consumer choice, the U.S. market will always be basically open. Consequently, we plan to use every tool at our disposal—multilaterally where possible, bilaterally where necessary—to make sure that other markets are comparably open to ours.

I want to make that clear because the President said it very clearly at American University, "comparably open to ours."

Mr. Chairman, I welcome the opportunity to answer questions from you and the members of your committee, and I appreciate the opportunity to be here.

[The prepared statement of Ambassador Kantor appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Ambassador. Again, we appreciate you being here.

Let me say that in the context of the overall NAFTA, I appreciate the comments you made about some of my proposals. I felt that being a member of a family that lives where we live now, when it was a part of Mexico, when it was a part of Texas, then coming into the United States, I felt that I might have a bit more personal sensitivity to the issues that we are dealing with. So I very humbly made suggestions, some of which were accepted and others of which were not.

One area that I felt very strongly about was that we must have a private sector dispute settlement mechanism for a variety of reasons, particularly since we have different commercial codes between the United States and Mexico—a different legal system.

We are still very concerned about sugar, as you will hear from the members. There are also concerns with peanuts, with wheat, corn, some of the horticultural produce, tropical fruits, and vegetables. There is still great concern on those issues and we hope that you might be able to address those, to the extent possible, in parallel agreements.

We also hope that you will very closely monitor Mexico's recent dumping investigation or concerns with exports of live hogs and fresh, chilled, and frozen pork and offals.

This committee helped initiate the agreement on the transparency and the 45-day notice. We don't want to revert to the old system. The Mexican Government informed our Embassy on Tues-

day that on the next Friday, the export of live hogs to Mexico would be stopped. So this is where the 45-day transparency and notice came in.

We do hope that you will monitor this issue closely. As you know, Mexico is a signatory to the GATT dumping code, and I do hope that you monitor that they follow the rules strictly.

I know this hearing is on agriculture, but I am also concerned about the environment and how it impacts the thrust of the NAFTA. In the North American Environmental Commission, I do hope we realize that the border with Mexico does not end at the water's edge. It continues through the Gulf of Mexico, and we hope you also address issues of the Gulf of Mexico on environmental matters. The gulf is basically a closed body of water and we need to protect it.

I might also mention that, as you know, in the Good Neighbor Environmental Act of 1992, sponsored by this Member, we established a Good Neighbor Environmental Board for the United States-Mexico border for which members are yet to be named. So I think President Clinton has a tremendous opportunity to use this board to begin to deal with environmental issues along the border.

Along with that, you have my recommendation—I don't think well understood—about changing the thrust of the border merchandise fee which is in existence. This fee currently goes to the general Treasury, but we could divert it. You don't have to open the agreement to do that because that is a domestic law here. It is outside of the agreement.

I might also mention that in regard to a recent proposal to establish a trilateral development bank, we have enough money problems in our country. I feel we could have the TDB have a fund for border environment rather than us having to put more money in another area.

I certainly agree with you about commissions and adding more bureaucracy. To the extent that we can keep that down, we concur with you.

Now we will go to the members. If there is no objection, I am going to go to 3 minutes to see if we can get all of the members. Then for those that have more interest, after we have finished with the existing membership, we can come back for a second round.

Ambassador KANTOR. Just to respond to one thing that you mentioned, the situation on the allegation by the Mexican Government that there could possibly be dumping in the area of hogs. We are watching that very closely to make sure, one, that they adhere to the dictates of GATT; and two, we are working with the domestic industry and USDA to follow it. So let me assure this committee that we are paying close attention to it.

The CHAIRMAN. Thank you very much. That's our concern. They have a perfect right to do so. All we say is adhere to the GATT rules, and then you monitor it closely, because they are members of GATT.

You mentioned working with USDA. I want to commend you and Secretary Espy for the excellent effort you are making toward cooperation between the Department of Agriculture and your office in the naming of a representative agreeable to both sides. So I want to commend you very sincerely for your part of it, and certainly

Secretary Espy for being a part of that. It's nice we don't have to go to two agencies; when we speak to you or when we speak to Secretary Espy, we know that you are coordinating. This is very helpful and a little bit unusual.

So I commend you for doing the innovative and trying to do a good job. I really am very pleased that you and Secretary Espy will have that working relationship.

Ambassador KANTOR. I have learned that it is very smart to follow closely your former colleagues and do what they say, so I will continue that policy.

The CHAIRMAN. We will go with the members that are here now.

We have a vote—I think it is the approval of the Journal. At my stage of tenure here, I think I can miss a vote now and then. [Laughter.]

Mr. Roberts.

Mr. ROBERTS. Mr. Chairman, I am not going to miss a vote, but I will try to make it very quick here, and maybe on the second round we can come back.

Mr. Ambassador, you can have the full benefit of the Roberts trade speech and we can get to the details.

Mr. Ambassador, Monday afternoon the USTR and EPA staff came up and briefed our staff on the proposed three-nation environmental commission and NAFTA in general. Staff was informed that the U.S. Government did not favor the creation of the commission because it would have control over the U.S. Government's standards in regard to the environment.

We have an article in the Post that now seems to indicate the administration is now supporting a three-nation commission. That's my first question. If that is the case, I must tell you I am concerned about this approach because of the early issue raised in regard to the United States dictating environmental standards to other governments, and then on the reverse side of it—which is the other side of the sword—aren't we in effect then turning over our industrial environmental standards to a three-nation commission? Would you care to respond, sir?

Ambassador KANTOR. Yes. I'd be pleased.

First of all, either someone misspoke or it was misheard, and let me not—I think we can clarify this.

Administrator Browner and I are very much on the same wavelength, as the President made it clear on October 4, 1992, in North Carolina, that we would have a three-nation environmental commission. That commission will not be charged with supernatural powers or to invade the sovereignty of any nation, including ours. Frankly, Mr. Roberts, we would not want that to happen. I don't think anyone on this committee would want that, and certainly not this administration.

It will, though, have the power and opportunity to investigate and follow up on petitions, to do its own reviews, to issue reports, to look at the enforcement of national laws in any one of the three countries.

One thing that I might point out is that, for instance, in Mexico the laws on the books regarding the environment are very good. They track our laws nearly on all fours, in most cases. The question is enforcement, whether through the court system or in other

ways, and that's really the question of how we set up this commission and how it relates to the NAFTA itself.

But let me make it clear, this administration is for a three-nation panel on the environment. That's what we're negotiating, starting today. It will have real teeth in it. It will be concrete and meaningful, and we are committed to it. So if there was any doubt in anyone's mind—and I apologize for any misperceptions or misstatements which might have been made—then I think I've just clarified those.

Mr. ROBERTS. I appreciate that response.

I have some further questions but in the interests of time and the vote, Mr. Chairman, I shall return. I yield back. Thank you.

The CHAIRMAN. I thank the gentleman.

Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman.

Mr. ALLARD. Would the gentleman yield for just 1 second?

Mr. BROWN. Certainly.

Mr. ALLARD. I'd like to make a unanimous-consent request that all members be allowed to submit a written prepared statement, Mr. Chairman. Would that be allowed?

The CHAIRMAN. Yes; without objection. Any member may submit a prepared statement for the record. Those statements will be placed at the beginning of the hearing.

Mr. ALLARD. Thank you, Mr. Chairman.

I thank the gentleman for yielding.

The CHAIRMAN. Mr. Brown.

Mr. BROWN. It is a pleasure to see you here, Mr. Ambassador. Knowing you and your past background, I have great confidence in your ability to do an outstanding job of negotiating with the Mexicans and Canadians and other nations.

I just want to express the view that you have already heard from many, that a successful supplemental agreement on environment, labor, and import surges I think is essential to the passage of this. I hope that you will give that every possible attention. Many of us, including me, have introduced legislation that would suggest mechanisms for doing this. I don't know that any of them are perfect, but it was done to indicate our interest and concern over this issue. The reasons are very simple: If we don't take care of these issues, many of us won't get reelected. That's a powerful motivator for us.

In that connection, refresh my memory. Is there a provision to establish a network of research institutes with Canada and Mexico that would deal with some of these issues that we're talking about here? I seem to recall seeing a reference to that someplace.

Ambassador KANTOR. Not in the NAFTA itself, Mr. Brown, there is not.

Mr. BROWN. In the supplementals, possibly?

Ambassador KANTOR. In the supplementals what we hope to have, in addition to the commissions, of course, is access to—if not full-time—secretariats with expert staffs, whether it be labor standards and safety, or in the environmental area, which can do the kind of work which I think you and I would agree needs to be done in order that we have a serious and concrete agreement.

We raise these standards throughout North America, not harmonized down, which I think is a great worry.

You mentioned something which I think is of incredible importance. I think you really hit at the heart of this problem. We have to come back to this Congress with a NAFTA and supplemental agreements that make the situation substantially better, I think, in order to be able to advocate an agreement that you and others here would want to see this country go forward with. This is not only in the interests of the United States. It is in the interests of North America and global growth. If we don't make the situation better than it is today, then we have not done our job.

So that is the criteria under which I am operating, on instructions from the President. From what I can gather from you and your colleagues and the other body, I think it is probably what they would like to see, a situation that is substantially better than it is today. That doesn't mean there have to be winners and losers; hopefully it is a win-win situation for all three countries, and I think we can accomplish that. It's not easy; it's going to be difficult. There will be very tough negotiations, which we started today, but with the help of the Congress and some ideas that you and the chairman and others have had and with the support of this President, which we have, I think we can get it done.

Mr. BROWN. Well, the chairman has made some suggestions based on his own long experience with the region that he represents, the border regions between Mexico and the United States.

As you know, we have problems in the border regions in California, mainly, very serious transport environmental problems, manifested in a number of different ways. We have had these problems for a long time. We have had mechanisms since World War II to coordinate the health approach to the border regions, all the way from the Gulf of Mexico to the Pacific. It's not been particularly successful. We have had science and technology agreements for at least the last 20 years. They have not been particularly good.

I am suggesting to you—my question raised the point that maybe this is an opportunity to really put some teeth into this cooperation, which I call research and development but you can call it a lot of other things—this understanding of what the problems are and what the best solutions are through a rational, systematic, research-oriented kind of approach.

The President has a letter from the Florida delegation calling for a kind of economic and social research activity; in other words, compiling precise data that will be helpful in monitoring the effects of the agreement. We need that emphasis on good information, support for research to get that good information, and a structure to make sure that it works. I am suggesting that to you, in addition to my deep concern over the standards themselves with regard to the environment and labor.

Will you support that kind of approach?

Ambassador KANTOR. In fact, yesterday, in front of the Environment Committee headed by Senator Baucus in the other body, we talked about that. We do support it, both in terms of research and reporting, in terms of exception conditions and reviewing, and making public when a country is not enforcing its standards. I think all of that is of tremendous help, using expertise on the staff and being able to bring in expertise—we agree with all of that very much.

As you know, I have had the experience, as you have, of talking to everyone from Mayor Wilson to Mayor O'Conner to Mayor Golding about the problems at the border between San Diego and Tijuana, which are manifest, and you and I as Californians both know that. So we will continue. It is not just, as the chairman knows, the Texas or New Mexico border. It is also the California border, and we are paying strict attention to that.

Mr. BROWN. As you know, I have been interested in environmental research for many years. We do not have adequate environmental research in our own country. If we attempt to apply environmental standards to Mexico, we are going to be in even worse trouble. I think our first step is going to have to be to strengthen our expertise to understand first what the problems are, then what the solutions are.

Ambassador KANTOR. Exactly.

Mr. BROWN. The research has to be aimed at the regulatory function here, as our own EPA's research is to a large extent, but then it must go beyond that. Here's where we can help to contribute to the economic development of Mexico, by assisting them with long-range applied research which we have supported for agriculture, for example, in our country, and for health.

Mexico is on the verge of developing a first-rate capability to do that. We have set up, through legislation about a year ago, a binational research foundation to continue to support that. It is extremely weak and inadequately funded.

I want to suggest to you that we might tie together these efforts, which go back a long way. We still have a research and development cooperative agreement with Mexico that goes back to the Nixon administration that has never been used. We have this proposal that is in the law now for a foundation to support binational research. We have a need to provide research in connection with NAFTA. All of these ought to be brought together to assist not only in enforcing the agreement, but to stimulating the economic development of Mexico.

Isn't that so, Mr. Ambassador?

Ambassador KANTOR. It certainly is. As you know better than I, as chairman of the Committee on Science, Space, and Technology—you have worked on this for years—we need to tie these various approaches together in a meaningful way.

We have to start with border cleanup, as the chairman referred to. That's going to be a daunting task, especially the funding part. Not the identification; the problems are obvious. Border cleanup, establishment of commissions, better enforcement of law, and access to the courts in Mexico, and then tying in these various approaches, whether it be applied research or using experts to determine whether or not we are really harmonizing up. That is so important—I know you would support this, harmonizing standards up, not only in the environment but in worker standards and safety, as well.

The CHAIRMAN. I thank the gentleman.

The gentleman is very correct, Mr. Ambassador. As I mentioned, we need to use existing facilities. To begin with, there is this Good Neighbor Environmental Board that will include representatives from Tijuana to Brownsville but for which the members are yet to

be named. Under the law they should be from every State on the border, Governors and local officials, lay people, academic people. Certainly this is an opportunity to begin the process.

Also as my friend, the distinguished chairman of the Science Committee, remembers, we provided legislation in the Initiative for the Americas which is on the books to create a Center for North American Studies which we hope would be related to all of the aspects of North America, but geared more to agriculture. It provides for a possible consortium of universities and colleges. That's also available.

Unfortunately, all of this entails funding. Hopefully with your help and that of Mr. Panetta and all of the members here, we might fund it. There's also a little bit of money to be gotten from the merchandise transfer fee—which we probably need to visit some more. We don't have to reopen NAFTA; it's there but; no one has noticed it. Every organization on the border supports retaining it. Mexico has a similar one. Ours goes to the general Treasury. Mexico's goes to their customs, and the Secretary for environmental concerns in Mexico is agreeable that on the Mexican side those moneys should be devoted in part to environmental and infrastructure needs on the Mexican side.

We do hope that you avail yourself of existing law with the Good Neighbor Environmental Board. It is an excellent opportunity for the President to put in people of his choosing from along the border. This is true also for the Center for North American Studies, so that we may coordinate some of the existing law in relation to research and development, because the best is yet to come in research as far as agriculture is concerned, Mr. Ambassador.

We will now pick up some of the members that have come back, if you have questions.

Mr. Dooley.

Mr. DOOLEY. Thank you.

Mr. Ambassador, I just thank you for coming by. I also want to state that a lot of us who are representing the agricultural community are concerned with some of the budgetary cuts that are proposed in the Agriculture Committee which basically will result in going from \$21 billion down to \$10 billion. It's certainly going to challenge the industry, but I think it's a challenge which we accept.

But what I think is absolutely necessary when we move down this path is that our farmers can compete with farmers in any other country in the world, but we have to have fair access to markets. While a lot of us who are representing the industry are going to support the reductions and the change in some of the farm programs, if we don't get the solid support from this administration on breaking down unfair trade barriers and opening markets to us, it's inevitably going to lead to widespread bankruptcy in the farm sector.

I applaud the administration's stand in some of your recent comments on NAFTA, because that's the future for the agricultural industry, the international marketplace. We are dealing in the international marketplace, and hopefully you will be very diligent in pursuing some of the obvious inequities and unfair barriers, be they Japan, be they the EC, or perhaps when we look at some of the side agreements that are going to be considered with NAFTA,

that we really do try to create an equitable opportunity, because that's all my folks are asking for.

Ambassador KANTOR. I appreciate that. The President said in his speech that we're going to "compete, not retreat." He has great confidence, as you do, not only in American workers but American farmers.

Let me talk for a moment if I could, Mr. Chairman, to respond to that, because I think it's really a critical question that Mr. Dooley has raised here.

Let's take the EC, for example. As you know, for years they have had variable levies which in fact raised the price of goods coming into Europe above the world market price and make it almost impossible to compete, although it's amazing that our farmers continue to do fairly well even in face of that. Their internal supports are about \$48 billion. Their export subsidies are about \$13 billion, whereas ours are about \$1 billion, I think, in 1991. They have enormous advantages, not only in operating here in this market because of those factors in keeping our farmers out of their markets, but also in terms of third markets where we compete with them.

It should not go unnoticed that in 1975 the Europeans were the greatest net importer of agricultural products in the world, and by 1985, because of what I just mentioned, Mr. Chairman, they were the greatest net exporter of agricultural goods due to these subsidies and internal supports and variable levies and other matters that they have used.

Now, what we need to do in the Uruguay Round, Mr. Dooley, is have a good, effective market access package. Now, there has been some positive movement. In the Dunkel text itself, over 6 years we lower by 20 percent internal subsidies on the 1986-1988 base. That will help. In the Blair House agreement we lowered export subsidies by 21 percent over 6 years, which will help, of course.

I have to say quickly that it does not close the gap, but at least it puts us in a better competitive position than we are today. But it is market access that really makes the difference. We have to insist on disaggregation. We have to insist that we don't start at a lower base than we are at today.

It was interesting that on January 2, when my predecessor met with Sir Leon Brittan, he suggested that in market access we start at a lower base for agricultural products than we are at today. That was somewhat stunning, and to her credit, of course, Ambassador Hills rejected that, as any good USTR would, and she was a good one.

So we have opportunities; we have concerns. I think the NAFTA is a big net winner if we can get these supplemental agreements, Mr. Dooley. But you can rest assured that this USTR under this President will be advocating for U.S. agriculture every chance I get.

Mr. DOOLEY. Just to follow up, we really believe strongly that the EEP and the MPP are real tools which we can use to address some of these unfair barriers and we hope the administration will be willing to use those aggressively when conditions merit them.

Ambassador KANTOR. Every time we have a chance to open markets and expand trade, we're going to do so, and we're going to use every tool at our disposal.

The CHAIRMAN. Mr. Ambassador, one of the questions that has come up is the question of customs and the rule of origin part of the NAFTA. I know you have a customs working group established, or to be established, among the three countries.

My question is, under this agreement, will U.S. Customs be able to monitor within the other countries for compliance with rules of origin or other areas related to customs?

Ambassador KANTOR. Our rule of origin law that we have reached in the NAFTA itself is very strict. We will be able to monitor them. We don't want Mexico to become a platform for goods that are from non-NAFTA countries.

Let me just say, to give some credit where credit is due, this was well negotiated in this agreement by not only the staff but my predecessor, and I think we are well protected in that area.

The CHAIRMAN. You will be able to monitor in-country, if necessary?

Ambassador KANTOR. Yes. We have in-country audits as well, of course, as the normal procedures.

The CHAIRMAN. That will allay some fears, some of the concerns expressed by members.

Mr. Lewis, we are still on the beginning round, the 3-minute question period.

The gentleman from Florida.

Mr. LEWIS. Thank you, Mr. Chairman.

Mr. Chairman, I have a written statement for which I would like to ask unanimous consent to place in the record.

The CHAIRMAN. That consent has already been granted. Any member may submit for the record any statement that they have.

Mr. LEWIS. I may have a series of written questions that I would like the Ambassador to respond to my office in writing.

Mr. LEWIS. From where I sit, Mr. Ambassador, momentum for the NAFTA is not at full throttle. I am aware that the situation has yet to fully unfold in terms of total negotiations and side agreements and so forth.

But we have a problem, some big problems, that we're concerned about. You received a letter from the Florida delegation; I hope you would respond to those concerns. We are looking at major labor problems. We notice that only one environmental group, the Florida Wildlife Federation, has signed off on NAFTA. More groups are jumping off ship than are jumping on board. From our observation we see that the "Donahue Show" is one show that is educating about NAFTA.

We have a serious concern with commodity markets, with sugar, citrus fruits, and vegetables. They are too volatile and react with too much speed to be adequately addressed with a volume-based safeguard mechanism. We are concerned about transshipments as well. We need to address these issues in a side agreement.

How do you feel we are going to be able to meet these responsibilities with the tariff quota situation? Or better, I should say, how will it be quicker to track based on volume rather than price?

Ambassador KANTOR. Let me take it three ways if I might, Mr. Lewis. I appreciate your question.

One is on the transshipment issue. Hopefully, the tough rules of origin, with the ability audit, as the chairman and I were just talk-

ing about, will address that issue in an effective manner. That's in the NAFTA itself right now.

Two, in terms of addressing the problem of surges which we're not aware of—I think you feel they could sneak up on us—part of the safeguard against surges is that in the supplemental agreement negotiations we will discuss an early warning system that we could implement which I think would be extremely helpful.

Three, on sugar itself, as you know, the substitution problem is left unaddressed in chapter 7 of the NAFTA itself. We believe that we can look at that in a hopefully effective manner, and some other areas as well, without getting into a negotiating strategy in public. It is certainly on the front burner as far as we are concerned, but I would be quick to add, as you know better than I, that in fact Mexican sugar production has gone down. Its population has grown. We have more and more imports into Mexico rather than the opposite. In terms of substitution, it doesn't appear at this point that they have the ability to do that. That doesn't mean that 7 or 8 years from now—as you know, for 6 years, we have a quota of 7,258 metric tons on sugar, and then of course it goes up after that, assuming that they have a net production increase.

In all of those ways, because of the current situation and because of protections and because of what I think we can do with these supplemental agreements, I believe we can address your issues effectively. We certainly mean to do so.

Mr. LEWIS. Thank you, Mr. Ambassador.

I'd like to correct one thing. I said Florida Wildlife Federation, but I meant that the National Wildlife Federation signed off on NAFTA.

I think we have to point out very strongly, Mr. Ambassador, that we are very much concerned in Florida about the short-term differences for the long-term gains. We don't feel that we can afford those short-term losses in a \$6.5 billion agricultural industry in Florida.

Ambassador KANTOR. As one who is still a member of the Florida bar and used to practice in Immokalee, Florida, Mr. Lewis, I understand some of that.

Mr. LEWIS. Thank you, Mr. Ambassador.

The CHAIRMAN. I thank the gentleman.

Mr. Rose.

Mr. ROSE. Thank you, Mr. Chairman.

Mr. Ambassador, in consideration of the Canadian Free-Trade Agreement, we were repeatedly told that Canada did not produce peanuts and should not be a concern to supporters of the peanut program. But from the period 1988 to 1989 imports of peanut paste from Canada were 1.404 million pounds, and in 1991 to 1992 11.396 million pounds.

Mr. Ambassador, that is a heck of a lot of peanuts from a country that doesn't grow many peanuts. We wish you would take a look at that. We think a reasonable interpretation of section 22 prohibits the importation only of peanut butter and we can't understand why peanut paste is coming into this country in violation of section 22. Most of these peanuts are coming from China and Argentina.

In today's Washington Post, there is a lead editorial that says, "How to Help Russia." Russia has no low-priced exports and no market for our products, but China does. Why are we having one set of rules—because this has pretty well been the administration's policy toward Russia and the former countries of the Soviet Union—a single condition ought to be democratic self-government. We don't require that of China. We don't even come close to requiring that of China.

I think that is the height of hypocrisy and I hope that the administration will know very soon how much we're concerned about them getting MFN treatment. I am chairman of the Subcommittee on Specialty Crops and National Resources. The subcommittee with jurisdiction over the honey program. My honey producers say that we are being flooded with Chinese honey and the import duty on our honey going into China is 60 percent.

Maybe the American psyche is more business-oriented than I thought. If they got a low-priced export and a market for our products, we don't really care about whether they have democratic self-government. But on poor places like Russia that don't, by God, we are real patriots. I hope you will do what you can to check into these things.

Ambassador KANTOR. Let me address that on the honey first. That is a serious problem. In 1990 I guess about 25 million pounds of honey came in and then it went way up over the last 2 years up to about 60 million. But you raise a much larger and critical issue about the Chinese. The Chinese want GATT accession, MFN status, yet we are concerned about transshipments, mislabeling, nuclear proliferation, use of prison labor, other human rights violations, shipments to the Middle East, and that is just the beginning.

Mr. ROSE. That's right.

Ambassador KANTOR. This administration is working on a coordinated policy toward the Chinese which we hope is going to be effective, and not just in trade. As you know, we suffer a \$19 billion trade deficit with the Chinese today, which is unacceptable, frankly, given the fact that they have not given us the market access they agreed to give us, yet we have opened our markets quite wide to Chinese products.

So we need to look at it as a seamless web and not just one area—whether it is trade or nuclear proliferation. This administration is going to try to look at it as a total picture, as I think you are suggesting. I agree with you.

Mr. ROSE. I am also suggesting that there is a hypocrisy here when we insist on democratic institutions and self-government as a condition to our help for Russia and don't require anything close to that for doing business-as-usual with China. I think the hypocrisy is just screaming at us. And that is what the hard liners in the Russian Parliament have said to me at NATO parliamentary meetings.

They say, "Why is America pressing us so hard to set up democratic self-government and you don't do a thing about pressuring the Chinese in the same way?"

Thank you, Mr. Ambassador.

Ambassador KANTOR. Thank you, Mr. Rose. I appreciate that. As I said, we are working on our policy. This is our seventh week and we're going to address these problems. You can be sure of that.

Mr. ROSE. Thank you.

The CHAIRMAN. I thank the gentleman.

Mr. Ambassador, our colleague mentioned with regard to peanuts transshipment and that the People's Republic of China doesn't have to worry about transshipment of honey. We only charge them 1-cent-a-pound duty. So this is something that I know we visited and you will be addressing that issue.

Within the overall, there needs to be some consistency. This is driving a whole segment of agriculture out of business. Some critics are taking shots at our producers because it is considered cute by some editorial writers, yet we afford foreign producers a give-away tariff. It is inconceivable that we would do that while the rest of the world has duties, with the exception of Canada, which I think is 1.5 cents. But beyond that, it is anywhere from 20 to 100 percent tariff. I do hope there is a GATT solution—but since they're not members of GATT, I think we must address that on a bilateral level, and make it GATT consistent.

Ambassador KANTOR. The Chinese, of course, are imploring us to help them with the GATT accession. I had sent a team from the USTR to China. They were just there 10 days ago. We made it quite clear that until in fact their markets opened up and there was reasonable market access, we weren't going to be as favorable toward GATT accession as they may have wanted us to be.

I think, Mr. Chairman, that the President's speech at the American University made it quite clear. We are going to insist that our trading partners in this new world—this post cold war world—be comparably open to our products as ours are to theirs. We welcome their products, but we expect them to welcome ours.

The CHAIRMAN. That is exactly true. The old saying is "Business is business." You have to do business in a business-like manner and not give away the store.

Ambassador KANTOR. And these are not just theories. All of your members know that there are real businesses and real American workers that have a stake in this. Trade is \$1.6 trillion of this economy. That is \$1 out every \$4. We can no longer afford to open our markets and not insist our trading partners do the same.

The CHAIRMAN. Good for you. We will work with you.

Mr. Gunderson.

Mr. GUNDERSON. Mr. Ambassador, welcome.

I couldn't help but reflect as I have been following your activities in the paper and listening to you this morning that I bet the campaign was easier than this.

Ambassador KANTOR. No, Mr. Gunderson, it wasn't.

Mr. GUNDERSON. That may be encouraging.

Ambassador KANTOR. Let me say that this is a delight given the political campaign. No. 1, I can be bipartisan, nonpartisan and work with both sides of the aisle. No. 2, I can work with a President who truly understands not only what I am doing, but frankly what everybody else is doing and has set a real consistent policy for us. No. 3, I can come up here without having to advocate politically and advocate for the American people.

I find it enjoyable. It is a tough task and it is challenging. The President has never given me an easy task yet, but I am happy not to be in a political campaign, frankly.

Mr. GUNDERSON. I appreciate the response. I am one of those who believes that we have to find a way to make this happen. I look forward to working with you to try to achieve that end—not that we don't have problems. But we have to find a way, when you look at the long-term implications of this, to make it happen.

I have a question on timing because I am confused. Very frankly, President Bush signed this—if I understand correctly—in December.

Ambassador KANTOR. That's correct.

Mr. GUNDERSON. That started a clock ticking. I thought that we had some obligations to complete by mid-year that we're now talking by the end of the year.

Can you share with us exactly what time constraints we have regarding the treaty, regarding side agreements?

Ambassador KANTOR. We are in a situation now to fast-track the NAFTA and the supplemental agreements and the implementing legislation. We have now whatever time we need, want, or is reasonable to bring it up here to the Congress once that has been signed.

We were under some restrictions if we had not gotten to the March 1 deadline and given Congress a notice on March 1. That is the time constraint that we had.

Now let me make sure that—

Mr. GUNDERSON. What happens by March 1?

Ambassador KANTOR. On March 1 would have been the drop-off date for the 90-day notice. Fast-track ran out on June 1. But President Bush signed on December 17, so therefore we are now in the process of working with your staff. We will be working with both bodies on implementation legislation.

As you know, this is prenegotiated under fast-track procedures, not negotiated after we send it up. We will also be working with you closely on these supplemental agreements.

Let me also indicate that we have indicated that we will seek fast-track renewal for the Uruguay Round. The President has not yet indicated how long he would like that to be for, but we will be coming back with that as well.

Mr. GUNDERSON. Yesterday, I had constituents in my office who were opposed to NAFTA. They said, "The reason we had the jack-in-the-box disaster in the State of Washington was because the North American Free-Trade Agreement allowed tainted meat to come in uninspected through Canada from Australia."

You and I both know that that is not true. I share that with you because it indicates the level of education that I think is necessary if you're going to have any hope in succeeding at this.

But I would like to focus on the question of the environment.

What are you anticipating regarding increased enforcement at the border? When you tell people that if it doesn't comply with our food safety standards and it is not coming in, they say that they don't inspect because they don't have enough inspectors.

What is the administration looking at in the area of increased enforcement of American food safety law?

Ambassador KANTOR. First of all, I will leave the particulars of that to the Secretary of Agriculture who has that jurisdiction. On the other hand, let me address two of your questions.

Environmental border cleanup is one of the highest priorities in these negotiations that we began today on the NAFTA and supplemental agreements. That has to happen. The funding is a daunting task. The chairman has given us some good and very creative ideas in that regard, but that is going to be a very difficult task. Under the situation we're in now, we all understand that we're trying to do something about a structural budget deficit that is plaguing this country. We would like to keep long-term interest low.

To the extent that we add more weight in terms of needs to that budget, we are hurting in that regard. So we have to be fairly creative as we come back to you and work with you with regard to border cleanup.

As far as protections, we have made it clear in the North American Free-Trade Agreement itself that we can enforce scientifically based regulations to protect human health and consumption as well as the use of various pesticides, herbicides, or whatever that would violate U.S. law. So that is clear.

But in terms of the details and how we inspect at the border, let me just say that the Secretary of Agriculture would be much more competent to answer that question than would I.

Mr. GUNDERSON. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Ambassador—the members please forgive me for adding little addenda to the conversation or the dialog here—as you know, we have the La Paz Agreement, which is a bilateral agreement with Mexico. Under that agreement, we have five areas: Border sanitation, transboundary shipment of hazardous waste, chemical emergencies, air pollution from copper smelters, and international transport of urban air pollution. I feel that this agreement could be used as a vehicle to address environmental issues related to our two countries on the border in addition to the Good Neighbor Environmental Board and in addition to a commission—the Gulf of Mexico.

So there are already in existence areas of which you can avail yourself.

Ambassador KANTOR. We are well aware of that. In fact, we are pursuing how that fits into this North American Commission. We are talking about the three-party commission on the environment and how they would fit together.

The CHAIRMAN. Actually, we have done so many things by different hands that a major coordination by your office would make your life easier, or maybe more difficult, to find all these little pieces and put them all together.

But we want the best. I am sure that you are striving for that.

Ambassador KANTOR. Mr. Chairman, when the Congress wrote this law and in updating it over the years made it clear that that is the job I am supposed to do on behalf of the President and on behalf of the Congress, frankly. The Congress was really the driving force in creating this office and in trying to coordinate trade policy and making it a cabinet position.

I feel very strongly that that is a major part of my responsibilities.

The CHAIRMAN. We are very happy about that because we can't negotiate, though we visit with representatives from almost every nation in the world periodically—they come through here and we go there. But for the technical negotiation, you are our man and we are going to rely on you.

Mr. Glickman.

Mr. GLICKMAN. Thank you.

Mr. Ambassador, it is a delight to see you here.

I would tell you that I did not support the fast-track authority on NAFTA under the previous administration because I thought there was kind of a purist love affair with free trade without understanding some of the nuances that you're dealing with now. I have a great deal more confidence now in you and in this administration.

Saying that, let me ask you, If you get satisfactory side agreements in the environment and labor, is the President then going to vigorously push the Congress for passage of this agreement saying that this is a highly politically charged issue?

Left to its own accord this will not pass. The natural inclination is to basically hear from every group that has a problem, every group that wants the status quo, every group that is afraid of the future. I am not saying that there are not legitimate concerns raised, particularly in the environmental area and in the low-wage area.

My feeling is more a question as well as a thought. Without active interventionist consistent and deliberate pressure from the President of the United States, this agreement doesn't have a chance of passing.

My question to you is: Assuming that you get stuff worked out on the side, is that what you're going to do?

Ambassador KANTOR. If we have agreements we reach which have teeth, which are meaningful, which are concrete and serious, this President intends to do what he said he was going to do on October 4, and then reiterated December 17, and then reiterated at American University. He will come up here and advocate the NAFTA with these supplemental agreements because under the criteria we have talked about earlier today, does it make the situation better than it is today?

That is really the criteria—not whether or not it is perfect. There is no such thing as a perfect world. I am glad you mentioned the free-trade protectionism, fair trade, results-oriented management—I have heard so many labels thrown out that I am dizzy. The fact is that we need to make sure we have comparably open markets, that we're pragmatic in our approach, that we really represent American business and American workers. In this particular agreement, we come back with something that really helps the situation substantially as compared to what it is today.

I really appreciate your remarks, Mr. Glickman. You are right on point. The President has said it time and again and he means it. Assuming we come back with agreements, he is not going to come up here with the North American Free-Trade Agreement without

them. So we have to assume that if it comes up here, that is the circumstance that will persist at the time and he will advocate it.

Mr. GLICKMAN. And the Mexican negotiators know that we have to have some modifications on the environmental end and labor issue for the President to be able to come back and sell this agreement to the Congress.

Ambassador KANTOR. I think that in the President's meeting with President Salinas—as you know, when he was President-elect, that was the first foreign leader he met with. In my meetings with Dr. Cordoba and Minister Sara and Mr. Blanco and in our various other meetings we have had in discussions and telephone calls we have made it quite clear that that is the criteria.

Mr. GLICKMAN. Is there any concern in the administration that if we don't get an agreement that the Salinas government will fall?

Ambassador KANTOR. The Salinas government falling I think is a little bit too hysterical on the part of some folks. I think what we want to do is understand that this is an important agreement for increased growth in North America, for global growth, for helping American business and workers as long as we have good, tough, supplemental agreements.

That is what we have to understand. To the degree that it helps stabilize not only this Mexican Government but helps to continue to draw them toward a market economy and further democratization, then we ought to welcome it as a country.

I think President Salinas has done a fine job in this regard. I don't think we are looking at governments falling. I think we are looking at a serious political situation, frankly, in all three countries.

I think you are right in your political assessment of what is going on up here. I am a rookie, but even I have the picture.

Mr. GLICKMAN. I just basically say that in a modern global world, dealing with the Europeans and the people in the east Asian community, it does make sense. If we can get a fair agreement, the Americas should be together in trying to compete with the rest of the world.

Ambassador KANTOR. As you all on this committee know better than anyone, we will create the largest free-trade zone in the world. Let me tell you, that will have a tremendous power in dealing with the rest of the world in terms of opening markets further. It will make a big difference.

That is assuming that we will be successful, of course.

The CHAIRMAN. Mr. Canady.

Mr. CANADY. Thank you, Mr. Chairman.

Mr. Ambassador, we appreciate your being here today. I just want to join in in bringing to your attention again the letter that the Florida delegation sent to you expressing our serious concerns about the impact that the proposed agreement will have on Florida agriculture. Florida agriculture is a multibillion dollar business in Florida. It is my personal concern that the agreement will have a devastating effect on Florida agriculture.

At the risk of reploting some ground—I apologize. We were gone for some votes and some of these questions may have already been addressed.

I would like to address the issue of how we can be certain, as part of the agreement and the supplemental agreements, that the types of regulatory burdens that are faced by American agriculture are also going to be faced by the agricultural producers in Mexico.

I understand that in terms of the nitty-gritty of this and the specifics, the Department of Agriculture may actually have to make the final determinations. I need to know what we will see in supplemental agreements and what we will see in the NAFTA itself that will ensure us that those mechanisms will be in place because otherwise I think we have a legitimate concern that there is going to be very much an un-level playing field.

Ambassador KANTOR. Let me address that in two or three ways.

First of all, in the NAFTA itself right now it is given rules of origin and reductions of nontariff barriers and tariff barriers that will help agriculture not only in the rest of the Nation but in Florida as well.

I understand your concerns and certainly the letter I received from the Florida delegation indicates a number of those, but let me play off that, in a sense.

We agree that we must harmonize up environmental standards. That has two points to it, as you well know. One is that it protects American consumers, but more importantly than that, it also begins to harmonize the cost of doing business in agriculture in Mexico with the United States. Obviously, right now it is frankly cheaper to do business in agriculture in Mexico than it is here.

So we agree with that approach. These supplemental agreements, if done correctly, will do that. We also have to look at Mexican occupational safety and other standards which will do the same thing. That is the second point in your letter and it is something that we agree with.

When we look at other points in your letter—a data base of Mexican and United States agricultural trade protection and commerce—we are looking at that. These commissions will have the facilities to do that.

So many of the points you make in your letter we are addressing in these supplemental agreements. And we will continue to do so.

Let me emphasize that we will not come back to the Congress with something without teeth in it. We just won't do it. This President has insisted upon it. That is something of which you may be sure.

The last protection that you have as a Member of Congress and all your colleagues is that we are going to work with you as we go along. We're not going to wait until June or July and come back and say, "Here it is." We will keep you informed as we go along. We will keep you informed in both executive session—which sometimes we need to do because we are negotiating, in effect, with two other countries—and we will keep you involved at the staff level as well, as we have tried to do.

I think that also gives you an ability to continue to advocate with us ideas that might be helpful.

Mr. CANADY. I understand that and I appreciate that. I appreciate the approach you're taking on that.

The critical thing for us is not simply a harmonization of standards, but having an effective enforcement mechanism in place be-

cause without that the harmonization of standards becomes meaningless. Unless we can have some assurance on that ground, then obviously our concerns will remain. Although the standards may end up being identical, if we cannot ensure enforcement of those standards effectively, then we really have not had redress.

The CHAIRMAN. The time of the gentleman has expired.

Mr. Volkmer.

Mr. VOLKMER. Thank you, Mr. Chairman.

Mr. Ambassador, I know you have already addressed earlier with the chairman the problem of the pork and poultry. I just want to let you know that some of us on the committee view what Mexico is doing as somewhat inconsistent with the idea of having free trade and promoting free trade.

In the first place, for some time we have had a problem with Mexico on mystery swine flu. Right now, because of that, our live hogs going to Mexico are down about 59 percent from where they were from 1991 to 1992. Now we find on this dumping—correct me if I am wrong, but as I understand Mexican law, if one of those exporters in El Paso actually sold into Mexico for less than what it cost him for one hog or a series of hogs, then Mexico could put additional levies on all hogs coming from all exporters into Mexico.

Is that correct?

Ambassador KANTOR. Frankly, we don't know that to be true. I have heard that. We are not sure of that.

As I said in answer to the Chair's questions, we are monitoring this closely.

Mr. VOLKMER. I know you're monitoring, but as I understand it, Mexican law is different from ours in that if you dump in here, then whoever dumps gets the levy against their product, but not everybody. But I understand Mexican law is that if they make a case on any one of these, they can increase the levy from the 20 percent up to equal the amount of the dumping, and that that applies to all pork going into Mexico.

Ambassador KANTOR. In order to be careful, I would like to get back to you, Mr. Volkmer, and give you a specific answer.

Mr. VOLKMER. I would like to have that because if that is the case, then how can we have free trade if they do one thing and we do something different? I thought a free-trade agreement was supposed to eliminate all that stuff.

Ambassador KANTOR. Your point is well taken. We will get back to you on that.

Mr. VOLKMER. Thank you very much. I would appreciate it.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Ambassador, welcome to the House Agriculture Committee.

I want to ask you a philosophical question and preface it by a very short statement.

I am one of those many who believe that the future of agriculture is driven by the engine of foreign export, as I know you are. One almost only has to look at the numbers to prove that 30 percent of all our agricultural production is exported and the future for us

to profit in agriculture depends on future opportunities in open markets.

Having said that, I have been following the GATT closely for the last 6 years. It seems to have a life unto its own, without certainly current solution.

Given the fact that the European Community subsidizes its agricultural program \$3 for every \$1 of ours—that is internal subsidies—externally \$10 to \$1 on their exports.

Given that enormity of difference, and recognizing that it is very difficult to find an agreement without overthrowing the governments of France and Germany in the meantime, politically, how do you ever get to a level playing field or some sort of equity in trade?

Having said that, the philosophical question is simply this: Recognizing Japan is a huge purchaser of our commodities, and recognizing that agriculture is only one part, why don't we begin to open the question with the Japanese of a free-trade agreement? We recognize that it would certainly send a chill into the negotiations with the European Community, which might be productive. Second, a bilateral agreement with the Japanese surely would enhance our agricultural exports.

Would you comment on that?

Ambassador KANTOR. I would be happy to, with great trepidation and sometimes in speculation, but certainly I will try to comment as I have before.

We have not done enough, frankly, Mr. Smith, in looking at the Pacific Basin—not just Japan, but the Pacific Basin in general. It is the fastest growing market in the world right now. For instance, we have been talking about China. Southern China is growing at 40 percent a year. The ASEAN nations—the so-called Four Tigers—are growing very quickly.

Frankly, the Japanese are having some economic problems right now. In fact, their economy is not growing. In fact, it has been declining in the last two quarters.

That doesn't mean what you're saying philosophically is not correct. It is only to say that we have enormous opportunities which we have not addressed adequately. This is not by way of criticism, but I think it is by way of explanation and pure fact. We have an opportunity to do so.

Prime Minister Keating about 2 months ago made an interesting speech in Australia where he felt we ought to put a framework around something called the Asian Pacific Economic Cooperation Forum, of which we are a member and the Asian nations are members, including China. We are the chair of that forum this year, by luck and by chance.

It may be an opportunity to open up just the kind of dialog you're talking about, not just with the Japanese—with which we have some bilateral problems right now—but in a wider sphere. I think you are correct that we will certainly gain the attention of others in the world who might have some concerns in that regard.

Mr. SMITH. I have just one quick follow-up question.

When you meet with Mr. Wilson, Mr. Ambassador, we of the West have a constant thorn in our side with the crow's nest rate, as you may know. There is no subsidy going to Thunder Bay, but there is going to the Pacific coast, which places the United States

exports particularly to the Asian areas in jeopardy. I would hope that you could visit with Mr. Wilson regarding the crow's nest rate and a continued subsidy to Canadian products going to the Pacific coast.

Ambassador KANTOR. We began those discussions. He was here earlier. I have talked to him twice by phone. I am going there on April 2. Those discussions—whether it be wheat or other products—are discussions that need to be held. He understands our very grave concerns.

Mr. SMITH. Thank you.

The CHAIRMAN. Mr. Ambassador, I apologize. I must leave. I will leave you in good hands with our colleague, Mr. English, to preside. I have to attend a very important meeting with two of my favorite people, the Prime Minister of Ireland and the President of the United States. We will be having a wee bit of Irish cheer.

Mr. ENGLISH [assuming chair]. Mr. Sarpalius.

Mr. SARPALIUS. Thank you, Mr. Chairman.

I, too, want to commend you on your new position and look forward to working with you as a member of this committee.

Mr. Ambassador, could you elaborate a little more on the concerns with the Canadian agreement regarding wheat where they require and use certificates for all grains?

It has been a problem with wheat producers. Could you address that a little further?

Ambassador KANTOR. Let me just take that a little further.

That is a problem. There is also a problem with the rail subsidies, which was not addressed by the FTA. There is also a problem, as you know better than I, with the Canadian Wheat Board and how they purchase wheat from Canadian farmers. The problem of transparency has resulted in a huge growth in the sale and delivery of Durum wheat, especially, into the United States. It is something we are very well aware of and about which we are very sensitive and concerned in the most serious way. It will also affect barley and Spring wheat as well.

Unfortunately, in the FTA, those rail subsidies were left out of the agreement, as you know. We had a chapter 19 panel under the FTA which did not go forward with the action we had hoped they would with regard to wheat, although they did allow us to go forward with an audit to try to gain some transparency in what the Canadian Wheat Board has been doing.

Frankly, I don't believe that is enough. We are having discussions now in the administration and I will be seeing Michael Wilson on April 2. We will try to move forward and try to get some movement in this area. It is a difficult situation. I understand that and we are very concerned.

Mr. SARPALIUS. Another concern I hear from a lot of my producers—I don't think this is just in my district. It is everywhere. One of the biggest concerns with NAFTA is enforcement. What assurances will we have that we won't see any back-door products coming into Mexico and then in turn coming into this country?

What types of enforcement will Mexico be willing to give us to see to it that this agreement does indeed hold true, as well as along the border of Texas?

There was just recently a story on "60 Minutes" regarding a large number of immigrants coming into this country. If we become more lax along our borders in Texas and in California, what type of an increase in enforcement are we going to have on our borders as well?

Ambassador KANTOR. Without addressing what is a Customs problem, the rules of origin in the NAFTA itself are very strict. We don't want Mexico to become a platform, in fact, of products from other countries, as you suggest. And we have a very good dispute resolution mechanism in the NAFTA itself which involves everything all the way to retaliation, if in fact there has been an offense committed.

Therefore, we believe in the NAFTA itself what you have suggested is covered as adequately as it can be. That doesn't mean it is going to be perfect. That doesn't mean that in certain cases there might not be transshipments that in fact violate these rules of origin, but we believe the Mexican Government is very serious about this and negotiated this agreement seriously in this respect. We are confident that we can enforce it.

Mr. SARPALIUS. Well, saying it and putting it on a piece of paper and doing it is something else.

Ambassador KANTOR. It certainly is.

Mr. SARPALIUS. That is one of the major concerns that I hear about—what assurance do we have that there really will be some enforcement of this. I assume you're convinced in your mind that that problem is taken care of.

Ambassador KANTOR. I don't want to overstate the case. No one should in my position. In my confirmation hearings in the other body, I made it quite clear that I believe half of my job is enforcement, not only agreements that are currently in effect but also U.S. laws, whether it be 301, 201 in other areas.

We have to make sure that we enforce the laws on the books and these agreements in order to make sure that they work and also to gain the confidence of the American people, frankly. I believe that is an important part of what I do.

Mr. SARPALIUS. My time has expired. Thank you.

Ambassador KANTOR. Thank you, sir.

Mr. ENGLISH. Mr. Barrett.

Mr. BARRETT. Thank you, Mr. Chairman.

I, too, Mr. Ambassador, want to congratulate you on your new station in life. My apologies for not being present when you had the dialog with members of this committee earlier. So in the interest of time, I would also like to submit a series of questions to you and hope that you could respond in writing, specifically with reference to commodities, wheat, sugar, and dry beans.

However, I have one quick question.

I continue to receive word that there has been a side agreement with sugar. Sugar producers even are telling me that there perhaps has been some agreement.

If we are revisiting this subject, I am sorry, but for my benefit and perhaps for the record, Has there been any agreement up to this point with sugar?

Ambassador KANTOR. There is no agreement other than what is in the NAFTA itself, which for the first 6 years we stay at 7,350

metric tons and it goes up after that, but the net production has to increase.

I went through earlier that in the sugar area production in Mexico has gone down in the last few years. But there is no agreement other than what you have seen in the NAFTA as signed by President Bush on December 17. All that we have said in this administration is that we understand the concern about substitutions of fructose, which might lead to the assumption of more net production therefore more exports into the United States.

We said that we will look at that problem seriously, and we are. Mr. BARRETT. Do you anticipate any kind of an agreement?

Ambassador KANTOR. With all due respect, and I hope with some sensitivity to my position as a negotiator, we are looking at it seriously. It is not a subject that has been unstated to our trading partners, and we will follow up on it. I don't think I should go any further than that.

Mr. BARRETT. I understand. Thank you.

Mr. ENGLISH. Mr. Ambassador, I may have some written questions as well. Mr. Barrett was referring to some questions he wanted to submit, and I am sure other members of the committee will, too. So we would appreciate it if you would consider those written questions and get a timely response to our office.

Mr. Roberts.

Mr. ROBERTS. If the chairman would yield, I have a statement and questions that are submitted by Congressman Crapo of Idaho. I would like to ask permission to insert those, Mr. Chairman.

Mr. ENGLISH. Without objection, his prepared statement will appear in the record.

Ms. Long.

Ms. LONG. Thank you, Mr. Chairman.

Welcome, Mr. Ambassador. It is good to have you here.

I have a question regarding the NAFTA that I have not received a satisfactory answer to date. What impact would the North American Free-Trade Agreement have on individual farm commodity prices?

Ambassador KANTOR. Frankly, because it lowers tariff barriers, as you know, quite substantially it may not affect prices directly. It will certainly affect the amount of our sales into Mexico, which has become a very large importer and consumer of United States agricultural products. So in that extent, it may affect prices because of a supply and demand situation.

I am certainly not an agricultural economist, so I cannot tell you, but it will have a very profound effect on farm income. For example, GATT will increase farm income from \$1 to \$2 billion, which is substantial. We believe it will also have a profound effect on farm income with agriculture, assuming that we get these supplemental agreements that make sense and all the criteria I have mentioned before.

The fact is that I am not sure it will have a direct impact on prices, but it certainly will have a direct impact on sales.

Ms. LONG. I think it would be helpful if you were to conduct a study and do some research to make some projections on individual commodity prices. When you talk about increasing farm income by \$1 to \$2 billion, you're looking at figures in the aggregate, which

really isn't specific enough with regard to information that would be important for individuals.

Ambassador KANTOR. The staff just handed me, "A Preliminary Analysis of the Effects of the North American Free-Trade Agreement on U.S. Agricultural Commodities."

That was done in September of 1992. I will be glad to leave a copy with you.

If that needs to be updated or if you have further questions, obviously we would be delighted to help you with that.

Ms. LONG. Thank you.

I also have another question regarding the GATT. It is a lengthier question, so I will submit it for the record and ask for a response. It has to do with dispute settlements and the Multilateral Trade Organization concept and what impact that would have on our ability to effectively resolve a dispute.

It is a fairly lengthy question, so I will submit that one for the record.

[The written questions follow:]

QUESTIONS FOR AMBASSADOR KANTOR FROM HON. LONG

Mr. Ambassador, for some time now a number of Members, including myself, have been concerned with dispute settlement provisions as contained in the current Uruguay Round text. In particular, we are concerned about how the Multilateral Trade Organization—the MTO—would function.

It appears to me that the MTO dispute settlement provisions bring into question the ability of our nation to maintain laws that are challenged and lost in the MTO dispute settlement process.

I will make available to you and your staff several documents, including a Congressional Research Service memorandum which states that if the dispute settlement provisions as outlined in the MTO are adopted, and I quote: "A party would no longer have control over whether or not it must change that particular policy or law to conform with the GATT."

I will make the entire CRS memorandum available to you and your staff for your information. I want you to be aware that there are many Members who are concerned about this. I will also make available to you a letter that over 50 Members sent to President Bush on this issue.

Have you examined the MTO provisions with regard to dispute settlement in detail?

[The answers were not submitted at time of printing.]

Ambassador KANTOR. And we will try to answer that.

We have deep concerns about the MTO, both in terms of amendments, waivers, decisionmaking—you name it and we have concerns.

Ms. LONG. As do I.

Ambassador KANTOR. As a country, we have submitted about a 42-page protocol both in terms of the language—and of course the creation of MTO itself has been questioned by this country. So we share a number of your concerns and we would be delighted to answer that question.

Ms. LONG. Thank you.

Mr. ENGLISH. Mr. Boehner.

Mr. BOEHNER. Thank you, Mr. Chairman.

Mr. Ambassador, welcome to the committee.

As you may be aware, Mexico has become the second largest market for United States pork producers. Over the last year, exports to Mexico are down 59 percent because we have been in a dispute over animal health issues.

In early March, the Mexican Government began initiating a dumping investigation against United States pork producers and the pork industry.

What actions are the Clinton administration taking to respond to this dumping case that has recently been initiated?

Ambassador KANTOR. We are looking at that closely. We have talked about this before, but let me answer it again.

Under GATT rules, Mexico has the opportunity to initiate an investigation. We're going to monitor it closely to make sure that they stick to GATT rules in this respect. They have alleged dumping practices and have not proven any dumping practices. We are working with the both the private sector of the industry as well as USDA in carrying out this monitoring process. We are as deeply concerned as you are about it.

Mr. BOEHNER. What, if any, signals are we getting, in your opinion, as a result of the actions from the Mexican Government on pork? Some of us believe that they are signaling that they are going to continue to be tough, and selectively tough, in allowing certain commodities into their country.

Ambassador KANTOR. Frankly, some of these considerations would be taken care of if we come back with the North American Free-Trade Agreement with the proper supplemental agreements that take care of these major problems we have been discussing.

I think the Mexican Government, like our Government sometimes, does not speak with one voice. I am not sure that there is a conspiracy, as you might put it, to raise these issues in various areas in order to create some concern. I think this is just one area—I don't know the background of it. I don't know the genesis of the concern, but it is something that continues to be a problem that plagues us.

We are well aware of it. We are concerned. We know it is an important problem.

Mr. BOEHNER. The country of Mexico is a signatory to GATT. Under GATT there are pretty strict rules for bringing allegations of dumping. If in fact these allegations and this investigation are unwarranted, are we prepared to go to GATT and ask for sanctions against Mexico under the GATT rules?

Ambassador KANTOR. We are prepared to take any action necessary to protect this industry in this regard that is available to us.

Mr. BOEHNER. Thank you, Mr. Ambassador.

Thank you, Mr. Chairman.

Mr. ENGLISH. Thank you.

Mrs. Clayton.

Mrs. CLAYTON. Thank you, Mr. Chairman.

I want to submit my statement for the record.

Mr. ENGLISH. Without objection, your prepared statement will appear in the record.

Mrs. CLAYTON. But I would also like to express my appreciation to Ambassador Kantor for his resolve to make NAFTA possibly a productive instrument by which we can include not only agriculture products but all economy because we recognize the importance of having free trade. Our hope is not that we put some commodities at a disadvantage.

Some of my questions have been raised already by my colleagues, particularly the origin as it relates to peanuts. I will just submit those questions likewise.

But let me raise another question because you raised it for us. In order to make this instrument accepted, you proposed a number of side agreements that will speak to concerns that we have.

Beyond agriculture, I have a concern about the NAFTA from the point of view of the environment. I have a concern from the point of view of low wages.

You see, I come from rural America in eastern North Carolina where a lot of the low entry level jobs are proposed to be replaced if this comes through. I don't see on the horizon any effort to minimize the conversion of that.

I speak particularly to the textile workers, but the same thing would be with farmworkers and their wages. You just can produce cheaper if you went to Mexico.

Not only the enforcement, which some of my colleagues raised sufficiently, but I want to raise what you're doing proactively recognizing that that is going to be a significant problem in parts of our county where we already have underemployment. This would further erode that.

Ambassador KANTOR. That is hitting the nail right on the head. In fact, that is what the President on October 4 talked about in your State when he talked about the supplemental agreements to NAFTA.

Unless we begin to harmonize worker's standards—which includes wages, working conditions, safety, environmental standards—and begin to do two things: Better the situation as it is right now in Mexico and throughout North America and harmonize them; and begin to harmonize the cost of doing business. We don't have a situation that is in fact substantially bettering what we have today.

What we have today is the flight of capital and production. You can't stop that from happening. It has already happened to some degree. If in fact we can come back with successful, meaningful supplemental agreements, as I have said, we can then harmonize standards and begin to address exactly the problem you have articulated so well.

That is what we are about in these supplemental agreement negotiations. That is what the President called for on October 4 and then reiterated on December 17 and at American University.

Mrs. CLAYTON. Thank you.

Mr. ENGLISH. Mr. Hilliard.

Mr. HILLIARD. Thank you, Mr. Chairman.

I believe that the supplemental agreements are going to really overshadow the agreement from the information you continuously give.

During the negotiation of the North American Free-Trade Agreement, was an agreement made to settle side issues that were not purely trade to be negotiated later, or are we in effect reopening the negotiations?

Ambassador KANTOR. First of all, I wasn't there. I was out campaigning.

Mr. HILLIARD. But do you or someone on your staff who was involved in the negotiations have information?

Ambassador KANTOR. Let me—

Mr. HILLIARD. There is a follow-up question I want to ask.

Ambassador KANTOR. You have asked a very serious and important question. Whether or not it was raised in the negotiations themselves over the North American Free-Trade Agreement as was signed by President Bush, these are issues that need to be negotiated now. We believe they can be negotiated and implemented without reopening the body of the NAFTA because they go beyond, and are apart from, and are complimentary to, what has already been done.

So we believe that can be done both legally and is in the best interest of the North American Free-Trade Agreement and in the best interest of creating a better situation in North America for workers and business, especially in our country.

I think that goes to your question. We are very careful, though, not to renegotiate NAFTA itself, the four corners of the document that has already been signed.

Mr. HILLIARD. I asked that question because it seems to me that we don't have an agreement.

Ambassador KANTOR. Without the supplemental agreements, the President of the United States has said that he would not send the present NAFTA to the Congress.

Mr. HILLIARD. I understand from that standpoint that we don't have an agreement. I am talking about that—even those that negotiated that left the table shaking hands felt as if they had something.

Ambassador KANTOR. They did.

So there is a full and complete disclosure here and a—

Mr. HILLIARD. Let me cut it short.

The benefits in the agreement—are they worth it to this country to the extent that we will forego if we are unable to get all we want in further negotiations on the side agreements?

Ambassador KANTOR. No, but the benefits to the this country are substantial. And those are not contradictory answers. No, we need the supplemental agreements. Yes, there are substantial benefits. We lower tariff barriers substantially, which will increase U.S. business and create jobs in this country. Of the 24 studies that have been done, 23 have shown that employment increases under NAFTA.

Two, we eliminate nontariff barriers which have been harmful. We protect intellectual property. We have a dispute resolution mechanism in this that I think makes sense. We protect investments and financial services and the rules of origin are very tough.

So in all those ways which I have just articulated for you, this agreement makes sense, but only if we can have these supplemental agreements to go along with it.

Mr. HILLIARD. Thank you.

Mr. ENGLISH. Thank you very much, Mr. Hilliard.

Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman.

Mr. Ambassador, I have listened closely this morning as well and I commend you. I think that the breadth of detailed knowledge you

have indicated, particularly relative to agricultural issues, show you to be an extremely quick study. I believe as our lawyer you will represent us well in the trade talks.

I have had a concern, representing North Dakota, that agriculture is about the furthest thing from the minds of our trade negotiators; that agriculture was an area papered over in an effort to get an agreement.

This has caused some serious problems and I would just point to the Canadian Free-Trade Agreement loopholes that have already been mentioned. It's very harmful to our Durum growers and other grain growers.

There is linkage to NAFTA to the extent that that loophole is incorporated within the NAFTA framework and Canada is allowed to continue that practice. It also politically has really left a sour taste in the voters in my region for free-trade talks. They don't believe that free trade is fair trade, given what we have seen with the Canadian Free-Trade Agreement.

In your upcoming meetings with the representatives of the Canadian Government, do you have hopes of addressing this issue?

Ambassador KANTOR. Not only hopes, but we are.

Let me say that I have had numerous meetings with your two Senators, who are old friends of mine, as you know. We have discussed not only in general but specifically what could be raised and what might be effective. I have raised them already with Minister Wilson. We're meeting on April 2—and this is No. 1 on my agenda and on the President's agenda—and we will try to get something done effectively.

We understand the impact this has had in your State and in other States as well. It is not just North Dakota. But the fact is that the rail subsidies were not addressed in the free-trade agreement. There is no transparency in the way that the Wheat Board operates. We also have serious concerns as to how that Wheat Board is subsidizing, if they are, the wheat farmers in Canada. We at least gained the right to have an audit of how the Wheat Board operates. We have end-use certificate problems, as you well know.

There are a number of things that we need to address and we're going to do it. Whether we are successful or not is another question in doing that. I don't want to sit here and promise more than I can deliver. Obviously, we need consenting adults to agree.

We have some arrows, though, in our possession that we can use. We will not hesitate to use them if it means we have to in order to deal with this very serious issue. And this is not just Durum wheat, it is also barley and Spring wheat, as you know better than I.

But I will also assure you that this office and this USTR and this President, who was Governor of Arkansas, is focused on agriculture and will continue to do so.

Mr. POMEROY. The level of detail in your answers to my question and the earlier questions reveal not just a sensitivity but a detailed knowledge that I didn't necessarily believe was represented in our earlier negotiating team.

We lost a recent appeal on the Durum issue and we can't hardly believe it, in light of the history. I think that perhaps the Canadian Free-Trade Agreement, with its language which includes an actual

damage determination, places insurmountable burden to proving the damage. The bilateral safeguard contained in the NAFTA agreement talks about threat of injury as opposed to actual damage. I think that might be an extremely important distinction if we are to arbitrate these in a fair manner going forward.

My time has expired, Mr. Ambassador. Thank you very much.

Ambassador KANTOR. Thank you for your kind remarks. I appreciate that.

Mr. ENGLISH. Mr. Goodlatte.

Mr. GOODLATTE. Thank you, Mr. Chairman. I have no questions.

Mr. ENGLISH. Mr. Bishop.

Mr. BISHOP. Thank you very much, Mr. Chairman.

Mr. Ambassador, I am from the peanut-producing area of the country, the State of Georgia, where 45 percent of the country's peanuts are grown, 90 percent of which are in my district.

Under the NAFTA and based on continuation of the current support price policy, the domestic quota of peanuts in the United States, the world price for peanuts, plus the proposed tariff would be equal to less than the support price in the second or third year of the North American Free-Trade Agreement. The economic impact on the United States peanut industry could increase substantially if Mexican farmers and even United States investors in Mexican agriculture start producing peanuts for export to the United States.

Lost revenue to the U.S. peanut farmers would easily reach \$75 million to \$100 million annually soon after NAFTA becomes operational. The economic impact on local rural communities in peanut-growing areas would be substantial. It is estimated that it will more than double the amount of lost revenue, which would mean \$150 million to \$200 million.

I would like to know whether or not the side agreements will contain any provisions to ameliorate or eliminate this drastic economic impact on U.S. peanut farmers and on the rural communities in which they live. These communities are tied to the farmers, the farm bankers, the crop insurance people, the feed and seed people, the fertilizer people, and so forth and so on, with a domino effect.

Ambassador KANTOR. Let me address that in a couple of ways. I appreciate your comments.

Even though it wasn't this administration, I think there was some sensitivity to peanuts in the negotiations. Let me just indicate that the volume in metric tons of peanuts shipped to Mexico in 1989, 1990, and 1991 is quite substantial and the coming in is quite limited, as you know.

Mr. BISHOP. As of right now.

Ambassador KANTOR. That's correct. I understand that. I also understand that you are raising an issue which concerns the future, and I appreciate your concern.

The rules of origin are very strong and very strict in terms of peanuts as well as other commodities. No. 2, there is a 15-year phase-out on the tariffication of our quotas on peanuts, which gives us a very long phase-out period, which is protective of the industry itself.

I know you are referring to a study that has been done by the industry. We have looked at that study and will get back to you on it. We are not as convinced that that is correct. We hope it is not. Obviously, the last thing we want to do—especially where it appears to me that you represent about 38 percent in your district of the peanuts in this country—is to do something that would have a substantial impact upon you and your constituents.

But it is a serious problem. It is one that was intended to be addressed both in rules of origin and in the tariffication process. We will continue to take a look at that and work with you on it.

Mr. BISHOP. Although NAFTA purports to be a trilateral agreement, it is my understanding that Canada declined to include large segments of its supply managed commodities in order to protect their own domestic commodities.

The U.S. peanut industry believes that the U.S. Government should have insisted on the same provisions for all U.S. section 22 commodities. The rules of origin don't go far enough in protecting the American peanut industry, and non-NAFTA peanuts will be particularly difficult to catch at the border if they are processed into such products as peanut paste, peanut butter, peanut oil, and confectionery products. There is a lack of confidence that there are sufficient safeguards to prohibit transshipment from other countries. At the present time, it seems that neither our Customs Service nor the USDA have the resources to enforce the rules of origin provisions to which you referred.

Is it possible in the rules of origin to make a technical amendment to refer to the use of Mexican-grown peanuts rather than NAFTA peanuts?

Also, to what degree will your agency be able to pursue third party counties bringing peanuts through Mexico as a conduit?

Ambassador KANTOR. We have taken care of your first concern. That is in the agreement. No. 2, the rules of origin, which are very good and very strict, should take care of your second concern.

The Canadians insisted on a separate agreement between Canada and Mexico on agriculture. They did not join in a three-party agreement. I think it is unfortunate, frankly. Let me say that I know this is not your concern, but in dairy products and poultry and those areas, they probably hurt themselves very badly because they have left open an open field for the U.S. producers in that area.

Mr. BISHOP. It seems like we are so willing to give away the store in terms of our own commodities where we are allowing other countries who want to participate in NAFTA to protect their own domestic products. But we're not doing the same thing for ours.

Ambassador KANTOR. Let me say that we are not willing to give away the store.

Mr. ENGLISH. Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman.

Mr. Ambassador, we appreciate your being with us today. I am not even going to ask you about sugar. I am going to talk about wheat and barley.

To follow up a little bit, one of the problems that you have with this agreement, in my opinion, is because of the experience we have had with Canada. Every week that goes by, the experience

gets worse and makes us more skeptical and nervous about what might be happening in this situation where Canada and Mexico want to have a separate agreement on agriculture. It really troubles us because we used to have 75 percent of the wheat market in Mexico and the Canadians had 25 percent. Now they have 75 percent and we have 25 percent. We are losing our milling wheat and the Canadians are picking up the market in the Northeast.

We have had the dispute panel. The Americans voted against us here a couple of weeks ago. So our folks are really nervous about how this thing might play out with Mexico and are frankly upset that we weren't able to get some of these Canadian issues on the table to be resolved while we are trying to set up this North American Free-Trade Agreement.

I understand you weren't there when this was all going on, but I would hope that somehow or another we can address some of these issues. There is no way that we can include the Canadian issues into these side agreements so there is no way we can bring them into the talks at all?

Ambassador KANTOR. We talked about this earlier and I appreciated the conversation.

Because the Canadians refused to join in the NAFTA three-party agricultural agreement, the FTA is still in effect. That doesn't mean that we are without methods of going forward and dealing with the problem you are raising, whether transparencies, subsidies, or rail subsidies or other matters regarding wheat. We have EEP; we have countervailing duties; we have the right to try to reach a bilateral agreement; and we have the right to talk to Canadians in open negotiations about restraints on imports into this country or exports from Canada into the United States. So there are a number of things we can address which we're beginning to do with Minister Wilson.

Let me say that what is interesting—and I understand this particular problem and all of these are important. Under the FTA, our trade deficit with Canada has substantially declined. We have done quite well. Frankly, if you read Canadian newspapers, what is happening up there is that there is tremendous opposition to the FTA because they have not done as well economically they believe as our country has. So I guess it is which part of the elephant or the donkey—to be bipartisan—you are touching as to the impression that you get. [Laughter.]

The fact is that what you are raising is serious. We mean to go forward. We will continue to work with you, as I have said before, because we understand it is a real problem between Canada and the United States and also in third countries like Mexico. I am trying to separate that out from the NAFTA itself because really it doesn't affect it in the way that you're referring.

Mr. PETERSON. Are you folks familiar with my end-use certificate bill I have introduced that would require the Canadian grain to have end-use certificates when it comes into this country?

Ambassador KANTOR. That is an interesting approach.

Mr. PETERSON. Are you willing to support my bill?

Ambassador KANTOR. I am certainly willing to take a close look at it, Mr. Peterson.

Mr. PETERSON. I hope you will because that is another area that got botched.

Ambassador KANTOR. This is important. End-use certificates are important. We really have not been as resolute with the Canadians on this problem as we should have been. I am going to try to be as effective as I can.

Mr. PETERSON. We had a big rally in North Dakota, Congressman Pomeroy's State, where we had half Canadians and half Americans protesting the free-trade agreement. Both sides of the border think they have lost on this, which is an interesting point of view.

Ambassador KANTOR. It is really interesting when we look at these. We ought to call these "hopefully expanded trade agreements" and "opening market agreements". Free trade really is not a term that applies to any of these because they are not totally free. But expanded trade is in our interest in agriculture as well as industrial products. As long as we understand frankly who we are representing here, which is American business and American workers—if we always keep that in mind, I think we will make some progress.

It won't be perfect, but we will make some progress.

Mr. PETERSON. And one last thing. It is very hard for those of us up on the border that have had this problem to support this agreement or what you're doing if we're taking agriculture out of this agreement and we can't negotiate to solve these problems. It is very hard for us to understand why we should support the North American Free-Trade Agreement when the Mexicans and the Canadians want to do the agricultural agreement separately.

What do we get out of that?

Ambassador KANTOR. I understand the wheat problem. In certain ways, because we're lowering tariff and nontariff barriers and because the rules of origin are tough, there are some real benefits for agriculture in here, frankly. We're not in a position right now to come back and say that we're going to advocate for the NAFTA because we don't have these supplemental agreements. Therefore, I might sound to be tremendously negative about the NAFTA itself.

I am not. I believe it can have benefits. But we have to make the situation substantially better with these supplemental agreements than it is now to come back with those positive benefits of the NAFTA itself.

Mr. PETERSON. Thank you, Mr. Ambassador.

Thank you, Mr. Chairman.

Mr. ENGLISH. Ms. Lambert.

Ms. LAMBERT. Thank you very much, Mr. Chairman.

Thank you, Mr. Ambassador, not only for being here today but also for your hard work and diligence in taking on this issue. It is a big one.

I think you have heard from the committee today and from others that there are some very big concerns, and a great deal of them. I come from a district where I represent 25 extremely rural counties, all very heavily dependent on agriculture and it is an important issue for us.

I think we're all looking to see expanded markets, and we certainly want to open them. That is important, but it is also important for us to see that it is done in a fair manner.

My understanding of the agreement as it stands is that it opens our markets to their commodities twice as fast as it opens their markets to our commodities. Certainly understanding that their productivity levels in my commodities, specifically rice and cotton, are limited because of their water resources, technology, and what have you, but it is going to be very important for us to see the supplemental agreement that you talk about.

I do understand my colleague, Mr. Hilliard, in his question concerning at which point we move from a supplemental agreement to reopening NAFTA. It is difficult because there are quite a lot of difficulties for us here to swallow. If we do see a supplemental as strong as we want to, there is the question of, at which point we are moving from a supplemental to reopening NAFTA?

One commodity that is very important to my area is cotton.

I am very interested to know if the administration would consider on a snap-back for cotton as a means of preventing import surges from driving up the cotton pricing stabilization programs. I think that is going to be important for my area. I would certainly like to hear what you might have to add on that.

Ambassador KANTOR. First of all, it is always a delight to hear somebody from my adopted State. Your two Senators have made me an honorary citizen of Arkansas since my family and I lived there for 6 or 7 months in the past year. We lived on Beechwood Drive in Little Rock, which we miss. It is a wonderful place to live.

We are concerned about that, as I indicated before. Rice, of course, goes beyond just disagreement. When we go into tariffication discussions and market access discussions in the Uruguay Round, obviously the Japanese are going to have some concerns. If we tariff nontariff barriers and other concerns in agricultural products, the Japanese then have to come forward in terms of whether they're going to open their rice market. I know that is something about which I have discussed with your Senators.

I would be glad to have that discussion with you in terms of cotton. We know the potential is not there now, but it could be later in Mexico and needs to be something we look at very carefully. I would be happy to work with you on that.

Ms. LAMBERT. Thank you. I would appreciate that. And I do think the long-term effects are going to be very important to all of us.

Thank you again for coming and for your hard work.

Mr. ENGLISH. Mr. Barlow.

Mr. BARLOW. I know you have heard many of these comments before, but I just want to reiterate them quickly. Even though they are quick, they are very serious concerns for western and southern Kentucky.

Rural economies are struggling. Industry in our rural economies are struggling. We have autoparts; we have textiles; we have clothing manufacturers in western Kentucky. But it is a very competitive world. We are very worried about losing jobs going south.

I would like particularly to discuss with you, and I raise this not just in regard to this treaty but in regard to other treaties going

forward through GATT and with other countries where the wages are much lower than ours, the danger of companies going into tax-free havens in these countries. We have companies that are paying their fair share for social services through the tax structure up here.

Could there be some type of tax equivalency assessed as goods come from these other countries into the United States? This is an area that we must begin looking at because you have companies here that are paying through the tax structure for roads, sewers, water systems, schools, et cetera. That type of tax structure doesn't exist in many countries. Or the companies are being asked to escape this type of a tax structure in the process of going into those countries.

Ambassador KANTOR. The question of direct subsidies in both production and distribution or marketing is being addressed seriously in the Uruguay Round. It is something where we were concerned about the language and one reason why we have been unable to reach agreement.

The whole area of market access is critical. I believe—and I think you believe—that American workers, given open markets and expanded trade can compete with anyone on Earth. The productivity of our workers is first in the world right now.

One of the things that has hampered us is the lack of open markets, a lack of comparably open markets on the part of our trading partners. That was the challenge that President Clinton laid in front of the world in his American University speech, that we would welcome products from other countries and we want them to welcome ours as well. We believe that not only in western Kentucky but all over the country that if we can open markets and provide market access tariffication in agriculture and other areas that we will prosper, lead global growth, and our workers will benefit from it.

In answer to your question, if you're going toward whether we should throw up more barriers to entry——

Mr. BARLOW. This is not a barrier at all. I would like to dispute that and will dispute that as we go forward in trade policies debate as long as I am here in Congress. This is not a trade barrier.

This is a tax equivalency. Our companies are paying their fair share of taxes in this country. Many companies are going abroad to certain countries where they get either a negotiated tax-free status or where the fact is that these countries simply do not have social structures that levy taxes on industry. So goods are coming back into this country at an unfairly low rate. This is distinct from the wage, which is another problem.

I am talking about some tax equivalency levy, paid as a good comes from a country where there is a tax-free structure into a country such as ours where companies are responsible taxpayers.

Ambassador KANTOR. The inability of economic harmonization is naturally what you're driving at. It is really something interesting because it underlies a lot of what we're trying to do in these supplemental agreements on the North American Free-Trade Agreement. Frankly, if we're able to come back with tough, meaningful agreements with teeth in these areas and harmonize standards and

begin to address the issue—really the issue you're addressing is a much larger and a very profound one.

Then we will be able to look at future agreements in light of what we have done in the largest expanded trade area in the world in a very meaningful way. I think we will address your problem—maybe not directly—but we're starting to address it indirectly in a fairly meaningful way.

Mr. BARLOW. Just in closing, I think we have to start addressing it in this agreement.

Thank you, sir.

Ambassador KANTOR. Thank you.

Mr. ENGLISH. Mr. Inslee.

Mr. INSLEE. Thank you, Mr. Chairman.

I would like to ask you a question about the relationship of our foreign trade policy. The reason I do that is that for two or three decades the American taxpayer has been funding the defense of the free world, oftentimes, funding the defense of trading partners who are dear friends but who don't recognize a comparable level of expanded or free trade.

Isn't it about time that we start to at least consider using the right to stand under the American taxpayer's military umbrella and use that as a lever in an effort to achieve our expanded trade aims for which you are so diligently going to fight?

Ambassador KANTOR. The President in his speech addressed your very good question in a very direct way. He said that our national security depends on our economic security at home; that no longer would our trade policy be driven by foreign policy and national security concerns; and that we need to engage in global growth and expanded trade in order to grow not only our economy, but the world's economy. But we expect our trading partners to take their fair share and to come along with us.

That is really the key to what you're saying. We couldn't agree more with you. The President has said it, and as USTR, I am going to follow that policy. I agree with exactly what you just said.

Mr. INSLEE. Thank you.

Mr. ENGLISH. Mrs. Thurman.

Mrs. THURMAN. Mr. Ambassador, I apologize for not being here earlier. However, out of the nine counties I represent in Florida, seven of them have been hit by the disastrous weather in Florida so we have been trying to work on some of those issues. So not only am I trying to deal with the North American Free-Trade Agreement, but I am soon going to have to deal with damage by water and freezes to the agricultural community in the State of Florida. I hope you keep that in mind.

I guess the issue for us is—while you may know that the agricultural community is about a \$6 billion industry in the State of Florida, we grow or have about 240 different crops, and we provide at peak times probably around 250,000 jobs.

I guess the question for some of us—I will tell you the Governor and the Cabinet, the Senate and the House have all signed resolutions and sent them here as well as a delegation in Florida that has pulled together on this issue probably more than I have ever seen before in an issue objecting to what is happening in NAFTA. Quite honestly, as far back as in April, they asked us to partici-

pate. They asked us to give information and then we're ignored as to what our needs and concerns are.

I personally have to tell you that it is going to be very difficult for anything you say today or that was said at the briefing on Monday that is going to make this an easy issue for myself or anybody in the Florida delegation. I think we need some assurances from you either today or later—and I will ask the chairman if I can submit what has been put out as a unified position by all agriculture in Florida to show you what that statement is and what they're looking at, but to answer some of their concerns or how they're going to do this.

But we really need some assurances that we are not going to lose agriculture in the State of Florida because it is real close to that, as they see it.

[The information follows:]



Unified Position
on the
**North American
Free Trade Agreement**

September 21, 1992

BOB CRAWFORD
COMMISSIONER OF AGRICULTURE

FLORIDA DEPARTMENT OF AGRICULTURE
AND
CONSUMER SERVICES

and the

Florida Carlemen's Association

Florida Citrus Mutual

Florida Citrus Packers

Florida Citrus Processors Association

Florida Department of Citrus

Florida Farm Bureau Federation

Florida Foliage Association

Florida Fruit and Vegetable Association

Florida International Agricultural Trade Council

Florida Lime and Avocado Administrative Committees

Florida Nurserymen and Growers Association

Florida Ornamental Growers Association

Florida Tropical Fruit Growers Association

Florida Strawberry Growers Association

Florida Sugar Cane League Incorporated

Florida Tomato Committee

Gulf Citrus Growers Association

Indian River Citrus League

National Juice Products Association Incorporated

Sugar Cane Growers Cooperative of Florida

FLORIDA AGRICULTURE

and the

NORTH AMERICAN FREE TRADE AGREEMENT

Background

Florida agriculture is a \$6 billion industry that provides wholesome, affordable food for consumers in the United States and around the world. More than 240 different crops are produced on Florida's 40,000 farms, ranches and groves. During the winter months, Florida growers provide more than half of the nation's fruit, vegetables, citrus and cane sugar. The industry provides jobs for more than 250,000 people during peak production periods, and contributes strongly to the state's economy.

The negotiation of a North American Free Trade Agreement (NAFTA) has been of great concern to Florida agriculture. The International Trade Commission in February, 1991, found that producers and processors of winter fruit, vegetables, and citrus were expected to experience losses in production and employment as a result of the agreement.

In April, 1991, Florida agriculture requested an exemption of import-sensitive, winter-produced fruit, vegetables, citrus and their products from the NAFTA until such time as several concerns of the industry were meaningfully satisfied. The industry also asked that existing patterns of trade in raw and refined sugar needed to be preserved.

Florida Agriculture's Position

The North American Free Trade Agreement, as written, fails to satisfy many of Florida agriculture's concerns. The industry believes the document must be modified to meaningfully address these important issues. Florida agriculture's viability as a producer of our nation's food, as an employer of hundreds of thousands of people, and as a strong contributor to Florida's economy is at stake. Should the agreement not be satisfactorily modified, Florida agriculture strongly recommends that the United States Congress vote to disapprove the agreement.

The agreement must be modified in the following areas:

1. Tariff phase-out categories: Throughout the negotiations, winter fruits, vegetables, citrus and sugar were recognized as being the most sensitive to tariff reductions. However, only 4 percent of Florida's winter fresh fruits and vegetables are contained in the longest phase-out period. The agreement must be modified to provide sensitive commodities with a transition period that will afford producers the maximum time for adjustment.
2. Safeguards: Florida agriculture had strongly requested a price and volume-based safeguard mechanism to protect the industry during the transition period from downward price pressure caused by import surges. The agreement contains a volume-based, tariff rate quota (TRQ) mechanism that will artificially alter planting patterns during the quota periods. The end result will likely be depressed prices early in each tariff window. The agreement must be modified to include a price-based special safeguard mechanism for perishable commodities. In addition, the tariff windows for the TRQ should be no longer than 30 days. The general safeguard mechanism in the agreement should also be strengthened and have no restrictions on its use.

3. Standards: From a competitive standpoint, Florida agriculture is greatly concerned about the differences in environmental, food safety, and labor regulations between the United States and Mexico. The cost of compliance with these laws and regulations are a major factor in the cost of production for Florida agriculture. The industry had requested harmonization of applicable laws and regulations in order to balance the competitive playing field between the two nations. Although the agreement encourages the adoption of international standards, it allows each party to establish its own rules. The agreement must be modified to require harmonization of standards-related measures within 10 years of the implementation date. In addition, the agreement must be modified to require equitable enforcement of each nation's laws and regulations regarding the production of goods and services.
4. Sanitary and Phytosanitary Regulations: The NAFTA confirms the right of each nation to adopt and maintain sanitary and phytosanitary measures necessary to protect human, animal or plant life. The agreement must ensure that U.S. agriculture continues to be protected from the introduction of harmful pests and diseases that could threaten human, plant or animal health.
5. Transshipment and Substitution: The industry expressed concern that non-participating countries in the NAFTA would ship products through Mexico or Canada into the United States and receive the benefits of the agreement. The NAFTA contains rules of origin designed to prevent such abuses. It is essential that the agreement contain strong enforcement mechanisms. The agreement does not prevent the substitution of non-participant products from being used in a member's country so that the member country's production can be shipped to another member. The agreement must ensure the practice of substitution is not utilized by a member country to the detriment of another member country.
6. Data Collection: The industry is concerned with the lack of adequate, reliable information on Mexican agricultural production. The agreement must be modified to include a requirement that Mexico develop complete statistical information on its agricultural sector in areas such as acreage, yield, consumption, trade, etc.

CITRUS

The Florida Citrus industry reaffirmed its current position that fresh and processed citrus products should be excluded from the North American Free Trade Agreement and went on record in non support of this Agreement; and strongly recommends that our government enforce phytosanitary production of citrus to prevent the possibility of the conduit of citrus products from other countries entering the U.S. duty-free; and all labor and environmental issues should be harmonized and enforced with U.S. standards to make certain those standards are met in order to ensure that wholesome citrus products arrive in the U.S. Without an exception, a two billion dollar adverse economic impact will accrue to the Florida Citrus industry over 20 years.

In the final stages of congressional review of NAFTA, The Florida Citrus industry would not support the agreement if it does not meet its stated objectives. If there is no possibility of an exclusion for citrus, then the Florida Citrus industry strongly supports at least a 20-year drop-dead period with no reduction in the citrus tariff schedule during the 20-year period.

FRUIT AND VEGETABLES

The North American Free Trade Agreement must be modified to place Florida-produced fruit and vegetables into the most sensitive tariff phase-out period. The following commodities should be given the maximum phase-out period provided for in the agreement, plus have access to a special safeguard mechanism, from the period October 1 to July 14, each year:

- potatoes, fresh
- tomatoes
- cherry tomatoes
- cauliflower
- cabbage
- head lettuce
- other lettuce
- carrots
- radishes
- cucumbers
- beans, all
- eggplant
- celery
- bell peppers
- squash
- sweet corn
- parsley
- other vegetables
- cantaloupes
- watermelons
- strawberries

The following commodities should be given the maximum phase-out period provided for in the agreement, plus access to a special safeguard mechanism, throughout the year:

- atamoya
- avocados
- carambola
- guavas
- leechee nut
- mamey
- mangoes
- papayas
- other tropical fruit

NAFTA: Florida Sugar Industry Recommendations

1. Sugar Recommendations. The following changes must be made:

- a. Net Exporter Determination. Mexico will be given increased access to the U.S. market any year it is projected to achieve sugar "surplus producer" status. This "surplus producer" determination must be changed in two ways:

- (1) It must be calculated not just on the basis of sugar, but expanded to include corn sweeteners. Otherwise, Mexico will have tremendous incentive to achieve sugar surplus status simply by replacing the 1.5 million tons of sugar consumed by its beverage industry with corn sweeteners, and shipping its surplus sugar to the United States.

If this change is not made, the pain of adjustment for the Mexican sugar industry would be shifted to the U.S. sugar industry. Our industry has already borne the pain of the transition from sugar to corn sweeteners in beverages, at an enormous cost--53 closings of cane sugar mills, beet sugar factories, and cane refineries, plus the loss of thousands of U.S. jobs.

- (2) It must be calculated on the basis of verifiable history and not just on uncertain projections, as currently provided. In addition, sound verification methods must be established and enforced.

- b. Access Limitation. Mexico's access to the U.S. market would be expanded to 150,000 tons in year 7, and increased 10% per year during years 8-15 of the agreement. By year 15, this would amount to imports of 322,000 tons, 44 times Mexico's current access.

But if Mexico achieves surplus producer status any two consecutive years, including years 1-6, it is permitted to send its entire exportable surplus to the United States. This provision must be struck--Mexico should not have virtually unlimited access to the U.S. market, particularly after a mere 6 years.

When U.S. domestic marketing allocations are in place, imports from Mexico, or any other country, above the 1.25-million-short-ton minimum, must be subject to the common external tariff. To prevent substitution during or after the transition period, Mexico must apply the common external tariff to all non-NAFTA sugar imports after it achieves net exporter status.

2. Sugar-Containing Product Recommendation. U.S. Section-22 protections for refined sugar and sugar-containing products will be phased out over 10 years. This transition period should be 15 years, not 10 years, consistent with the transition period for raw sugar.

Section 22 Commodities: Florida's Section 22 commodities should not be tariffed. The U.S. has a Section 22 waiver, and inasmuch as Canada's dairy and poultry regimes will not be tariffed, in either a trilateral or bilateral, tariffication of our Section 22 is not desirable.

Tariffication of Section 22 in the NAFTA could also set an undesirable precedent for future bilateral or plurilateral free trade negotiations with other Latin American and Caribbean countries under the proposed Enterprise for the Americas Initiative.

Tariffication of Section 22 could also undermine and complicate our position in the Uruguay Round of the General Agreement on Tariffs and Trade since the proposed market access levels in the Uruguay Round will most likely be more conservative than those in the proposed NAFTA.

This is not an issue of competitiveness. For example there is no question that our Section 22 crops are more competitive than Mexico's, but the root of the matter is that Section 22 is subject to a multilateral waiver that the U.S. was granted in 1955 for the GATT, and therefore, it should only be dealt with in the multilateral context of the Uruguay Round

POSITION STATEMENT OF
FLORIDA FARM BUREAU FEDERATION REGARDING THE
NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

Since the International Trade Commission's report in 1991, it has been recognized that Florida's winter fruit and vegetable industry would suffer economically from a Mexican Free Trade Agreement. Other economic reports indicated that winter fruit and vegetable producers would be the segment of the agricultural economy that suffered while feed grains, soybeans, certain horticultural crops and the livestock sector, as a whole, would benefit.

Florida Farm Bureau and its members have participated through the public comment process as well as serving on the private sector Agricultural Technical Committee (ATAC). The public comments were focused on the U.S. International Trade Commission, U.S. Trade Representative and her staff, Secretary of Agriculture and his staff as well as the Florida Congressional Delegation.

Through Florida Farm Bureau's policy process, our members directed that our organization was to become an active participant in the negotiations process. It was the organizations goal to work with negotiators to develop the best agreement for Florida agriculture. Now that the NAFTA has been initialled and made public, it is up to our members to formulate Florida Farm Bureau's position. Our members must now decide if the negotiated agreement provides Florida agriculture enough fairness in competition with Mexican agriculture.

Specific Provisions:

1. **PHASE OUT PERIODS** - Florida's winter fruit and vegetable industry asked for exclusion from the agreement, but did not receive it. The agreement allows import sensitive crops a 10 to 15 year phase out with Tariff Rate Quota's (TRQs). While winter fruit and vegetables are the only commodities to receive this benefit, our members feel that the phase out should be extended to 20 years for all import sensitive crops.
2. **CONVERSION OF QUOTAS** - Certain farm program crops utilize Section 22 to limit imports quantitatively to maintain the integrity and viability of those programs. The quantitative import restrictions were converted to tariffs with those tariffs being reduced and eliminated under the NAFTA. Our producer members are concerned that increased production in peanuts or other crops as well as imports being processed and exported to the U.S. could damage and destroy certain programs. Feeder cattle producers also have expressed concern for the integrity of the Counter Cyclical Beef Import Law and the loss of market for over half a million feeder calves shipped out of Florida on an annual basis. The signatories must develop a dependable and reliable data gathering system to track both imports and exports.
3. **RULES OF ORIGIN** - Florida Farm Bureau continues to support a strong country of origin rule and the necessary data to assure that it is implemented. This issue is strategic in assuring the success of the NAFTA and providing protection to the domestic industries of all members of the NAFTA.

4. **SANITARY AND PHYTOSANITARY RULES** - Florida Farm Bureau continues to call for strong sanitary and phyto-sanitary rules based on recognized science. This area is key to all segments of Florida's agriculture. There is concern among our members about livestock diseases and pests moving across the border as well as the use of false sanitary requirements to restrict market access of livestock products. The horticultural industry is concerned that a reduction in phyto-sanitary requirements may adversely impact the U.S. plant import laws and loose plant pests and diseases throughout the U.S. Finally, our members are also concerned about the potential for human health occurrences if sanitary and phyto-sanitary requirements are relaxed.
5. **GRADES AND STANDARDS** - While we do not believe that there should be a harmonization of grades and standards, we feel that each country should have the right to develop their own Federal grade standards. These standards should be honored and recognized by the member countries. Product being shipped into a country should meet those grade standards and marketing order quality requirements.
6. **GROWER DISPUTES IN TRADE OF AGRICULTURAL COMMODITIES** - There should be mechanisms in place to resolve grower disputes arising out of trade of agricultural commodities. This could include the development of laws and implementation of regulations such as Packers and Stockyard Act (PSA) and the Perishable Agricultural Commodities Act (PACA) that resolve disputes and guarantee prompt pay for producers.
7. **PERIODIC EVALUATION OF PROGRESS** - Florida Farm Bureau supports the periodic (possibly every four years) review of all signatory countries environmental and labor laws and implementation at the grower level of those laws. There is a tripartite panel designated that could be responsible for this evaluation. In the event a signatory country is not making suitable progress in implementing those laws, the NAFTA should temporarily freeze all agricultural provisions until satisfactory progress has been documented.

These areas of concern must be addressed satisfactorily for Florida Farm Bureau to support this agreement.

As we move through our policy process and as our members have more opportunity to study the NAFTA other provisions may be added.



FLORIDA FARM BUREAU FEDERATION

P. O. Box 147030, Gainesville, Florida 32614-7030 Telephone (904) 378-1321

March 16, 1993

QUESTIONS CONGRESSWOMAN THURMAN MAY WANT TO ASK IN REGARD TO NAFTA:

1. In the NAFTA, why are the southern commodities with the least cost programs (peanuts and cotton) or no programs (fruits and vegetables) most impacted while the traditional program crops with direct payments from the U.S. Treasury (corn and wheat), the direct beneficiary?

Were the negotiators more concerned about protecting the traditional program crops rather than the crops that have minimal impact on the Treasury?

2. In looking at the NAFTA, I find it interesting that orange juice and grapefruit juice are treated differently. The orange juice phase-in period is set fifteen years with a tariff rate quota; yet grapefruit juice is not even addressed.

Could you explain your rationale, in view of the fact that Mexico is a grapefruit producer and their juice can be a direct competitor to Florida producers?

3. We have been told that the NAFTA negotiations were conducted and finalized to reduce the tariff protection and to do away with non-tariff barriers. I find it interesting that the Canadian government continues to protect segments of its agriculture industry.

Why do we see protection of an adversely impacted industry as something bad?

Ambassador KANTOR. As I said before, as a member of the Florida bar, and as someone who has lived and worked in southwest Florida when I was very young, the fact is that I am aware of these problems, we are sensitive to them at this office, and the President is sensitive to them. We understand that there is a sense of a lose-lose situation. I think with the proper supplemental agreements and with the proper advocacy we can make this a win-win situation, even for Florida agriculture, about which we are deeply concerned.

I have talked to a number of people in your delegation and your Senators about this. But rest assured that we are acutely aware of your concerns and will continue to address them as we go forward.

Mrs. THURMAN. I am going to hold you to that.

Ambassador KANTOR. I know you will.

Mr. ENGLISH. Mr. Condit.

Mr. CONDIT. Mr. Ambassador, we are honored to have you here with us today. As a fellow Californian we are particularly honored and proud of the work you have done in the trade area as well as other work you have done over the past year or so. We are extremely proud of you.

Coming from California, I know that you're aware of one of the issues I am concerned with, which is the wine provision in the NAFTA agreement. As you are aware, California produces 90 percent of all the wine in the country and is responsible for about 95 percent of the wine exported from the United States.

The North American Free-Trade Agreement gives U.S. wine a general tariff phase-out of 10 years with a tariff reduction of 2 percent per year over the next 10-year period. The wine industry should be a preferred trading partner with Mexico under the North American Free-Trade Agreement. However, in the pact with Chile, which was implemented in 1992, Mexico agreed to cut the tariff on the Chilean wine immediately from 20 percent to 8 percent and eliminate the remaining part of that over the next 4 years.

As you know, the wine industry and the people from California feel that the Chilean wine is a major competitor for California. As of January 1, 1993, the Mexican tariff on Chilean wine has been reduced to 6 percent. By 1996, the Chilean wine will enter Mexico duty-free and the United States wine will enter Mexico with a 14 percent tariff.

To get to the point, we don't believe that is a fair playing field for the wine industry, which is extremely important to the economy of California, particularly important to the economy where I live in California, the Central Valley. In search for votes for the North American Free-Trade Agreement, I just wanted to bring this up so that if there is a way of dealing with this issue we would encourage you to do that and try to find some fairness and level the playing field.

Ambassador KANTOR. As you know, Mr. Condit, I have had discussions with leaders of the wine industry in California. Many of them are close friends.

There is an acceleration clause in the NAFTA itself, assuming it goes through all the necessary requirements to be enacted and goes into effect. We would have the right to begin immediate discussions to accelerate the decrease in tariffs at that point. You can rest as-

sured that this is one item that is high on our list and on a front burner, as are other items.

Certainly wine is. We are aware of the disparity between the treatment of Chilean wine and California wine.

Mr. CONDIT. The supplemental agreement that you mentioned—what holds that together? What really requires them to adhere to it? Is it a—

Ambassador KANTOR. It becomes a bilateral negotiation. There may have to be some give-and-take in that. They may want some acceleration of tariff reductions. Although frankly, as you know, tariffs are so low on goods coming from Mexico into this country that we don't have a lot of give in that respect. But we believe that we can both in discussions now where we do have some leverage and in discussions later we can address this issue.

To go further than that I think might put me in a position as a negotiator of negotiating with my friend, Mr. Condit, and not with our trading partners, which I don't want you to do and which you wouldn't want me to do.

Mr. CONDIT. Certainly.

I appreciate your response. I appreciate your consideration on this matter. I do share some other concerns and will forward those on to you in writing. I do appreciate you being here. I do mean that we are very proud of you.

Ambassador KANTOR. Thank you very much. I appreciate that. That is very kind of you.

Mr. ENGLISH. Thank you very much, Mr. Condit.

Mr. Ambassador, is there any movement with regard to the market access question in the Uruguay Round at all?

Ambassador KANTOR. There better be or we will not have a successful Round. We have had preliminary discussions in early March. Those are mainly technical in nature and also in terms of setting the agenda. I go to Brussels on the 29th of March. We will then set some very specific meeting dates.

No. 1 on our list is market access in agriculture, industrial products, and services. We also have other concerns, whether the MTO that Ms. Long talked about earlier or in subsidy discussions of intellectual property rights, discussion of audiovisual—which is also important to us in California, as Mr. Condit knows.

We have a number of items on the agenda. But we are moving promptly as the President as directed me to do.

Mr. ENGLISH. I recall last year we had some testimony from the Environmental Protection Agency talking about the environmental laws in Mexico. They told us that those laws were very similar to the laws we have here in the United States. The difference comes not in what the laws are on the books, but rather with regard to enforcement.

So as we focus our attention with regard to what is contained in any kind of agreement with Mexico, it appears to me that we may be faced with the same kind of difficulty. It may be contained in the agreement, but carrying out the enforcement is something else entirely.

We have laws on the books in this country with regard to many of our agricultural products and our trade governing other countries. Much of that has to do with imports. The issue comes down

not to what the agreement allows or calls for, but the question of how the United States is going to enforce those agreements.

I know in testimony we have had and discussions we have had with the Customs we have found that they have had little or no part in the design of these agreements in a way that gives them any kind of opportunity for enforcement. So the question comes down to the agreement. In reality, are we in fact opening the doors—because they are unenforceable—agreements that will not allow—as is allowed under the agreement itself—protection for transshipment of various agricultural products?

Has there been any kind of attention given to that area? What kind of assurance can we be given that there will be enforcement with regard to our laws? Are we allowed into Mexico, for example, to investigate transshipment questions? Will we be able to participate in that? Who will have the responsibility? Will there be additional personnel assigned to the Customs Service or other enforcement agencies to make sure that this is carried out?

Certainly, when we look at the difficulties that we have faced just in preventing all of the illegal drugs coming into this country, and we know, for instance, any cocaine crossing our borders is illegal, how are we going to be able to differentiate between a side of beef or processed meat as to whether it came from Mexico as opposed to Argentina, Australia, or some other country in transshipment?

Ambassador KANTOR. Let me start from your very precise question and maybe make one broader comment.

In article 505 records and article 506 origin verification we do have the right to audit in Mexico and audit these procedures, which should be fairly protective in terms of rules of origin. It is very strong language.

Mr. ENGLISH. The problem that troubles me about this is that, sure we can audit books. There is no problem with doing that sort of thing. But do we have the right under this agreement to send investigators in to determine whether or not those books are being created or whether they accurately reflect what has happened?

Let me tell the response when I asked this question earlier. The response I got as to how we were going to determine whether or not our meat import quotas are being violated—meat being shipped into this country—was that we have a rough idea of how much meat is produced in Mexico. Therefore, whenever the amount that is crossing our borders exceeds that particular level, then we know they are in violation.

If in fact what we are doing is saying that we will open up our borders for any of our agricultural products from which we have any kind of import quotas and simply say that they can ship in the total amount that is produced in Mexico, then I think we have a very serious problem indeed and one that will be very destructive to American agriculture. I don't think there is any way in the world you can say that that is going to be a positive influence for American agriculture.

Ambassador KANTOR. Let me just read in article 506 origin verification 1(b), which I think is very interesting.

"Verification can be done by means of visits to the premises of an exporter or producer in the territory of another party"—in this

case, Mexico or Canada—"to review the records referred to in article 505(a) and observe the facilities used in production of the goods."

That is very strong language and goes a long way toward what you are referring to. Obviously, you also talked earlier about enforcement of laws and dispute resolution. Chapter 20 is well drafted. Also, in the side agreements we are going to look to the Mexican port system and see what we can do in terms of assuring due process, citizen access, appeal administrative decision into the court system, and so on, which will make a difference.

So in all these ways, we are trying to address the question that you raise. It is not only appropriate, it is a critical question.

Mr. ENGLISH. Can you give us any kind of assurance that the administration will in fact make sure that there are adequate resources available through those agencies that have the responsibility for enforcement? I think we are talking primarily about the Customs Service.

Ambassador KANTOR. That's correct.

Mr. ENGLISH. They are terribly overworked as it is. They have huge responsibilities.

In this case, can you give us assurances that there will be special attention focused on this in making sure that they have adequate resources to prevent these kinds of violations of the agreement?

Ambassador KANTOR. This comes under Secretary Bentsen and I am not in the business of speaking for him, but I know he would treat this as seriously as you, the committee, and I would treat it. One of the staff members in this body will now head the Customs Service, George Weiss, who is one of the most talented people to come out of here or anywhere else. I think given his talents; and given Secretary Bentsen's commitments; and given the language in this document and the dispute resolution mechanism in the NAFTA; and assuming we get the supplemental agreements—I have said that many times but I don't think you can say it enough—then I think we're addressing as effectively as possible the question you are raising.

Mr. ENGLISH. Thank you very much.

Mr. Goodlatte.

Mr. GOODLATTE. Thank you very much, Mr. Chairman.

Mr. Ambassador, welcome. We're glad to have you here.

I represent the Shenandoah Valley of Virginia, which is a major agricultural area of my State. I have generally regarded free trade as something that was a big boon to American agriculture and to a number of other industries in my district. I am concerned, however, to learn that the National Turkey Federation is concerned about the fact that this agreement sets quotas for turkey exports that are significantly below their existing exports and their projected export levels.

Do you have any observations on that? Is anything going to be done to rectify that? That is probably one of the largest agricultural commodities in my State.

Ambassador KANTOR. This is one of which I was not aware.

I am told that the original base was set 1989 to 1991. Of course, poultry has grown tremendously. Once they set the base during the

discussion, it grew beyond the base. It is just a problem of locking something in too early.

I don't know if we can open this up under the acceleration provision or not. I will check into that, though. I think you raise a very serious concern. It is part of what we talked about before in the Uruguay Round. In the discussions in early January, which were not productive—one reason was that in agriculture they wanted to start at a lower base than we were right now in certain commodities and they wanted to aggregate commodities, which will be harmful as well.

You are raising a very serious issue. I really don't have a good answer for you. We would like to get back to your office on that.

Mr. GOODLATTE. I would appreciate that. It concerns me that we're promoting free trade here, although it would seem to me that Mexico is already allowing in more of this product than the agreement.

Ambassador KANTOR. I appreciate your comments and I will get back to your office on that.

Mr. GOODLATTE. Thank you.

Mr. ENGLISH. Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

Mr. Chairman, I would like unanimous consent to enter into the record the Florida delegation's letter to the President and Ambassador Kantor.

Mr. ENGLISH. Without objection, that letter will appear in the record.

Mr. LEWIS. Thank you.

[The material follows:]

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STACY STEINIZ
MINORITY CONSULTANT

U.S. House of Representatives
Committee on Agriculture
Subcommittee on Specialty Crops
and Natural Resources

Room 1301, Longworth House Office Building
Washington, DC 20515

M E M O R A N D U M

FROM: TOM LEWIS
TO: HOUSE AGRICULTURE COMMITTEE MEMBERS
DATE: MARCH 17, 1993
RE: FLORIDA DELEGATION LETTER REGARDING
THE NORTH AMERICAN FREE TRADE AGREEMENT

For you information, I have attached a copy of a Florida delegation letter recently forwarded to President Clinton, Secretary Espy and Ambassador Kantor.

The attached correspondence outlines Florida agricultural concerns with the North American Free Trade Agreement and discusses recommendations for inclusion into environment, labor and import surge side agreements.

TOM LEWIS
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COMMITTEES
COMMITTEE ON AGRICULTURE
COMMITTEE ON SCIENCE, SPACE,
AND TECHNOLOGY

SELECT COMMITTEE ON
NARCOTICS ABUSE AND CONTROL
NORTH ATLANTIC ASSEMBLY (NATO)



Congress of the United States
House of Representatives
Washington, D.C. 20515
March 11, 1993

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The Honorable Bill Clinton
President of The United States
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20505

Dear President Clinton:

The North American Free Trade Agreement and its impact on Florida's \$6.2 billion agricultural industry is of great concern to the Florida Congressional delegation.

We have attempted to monitor negotiations in an effort to make an adequate assessment of NAFTA's effect on Florida. In May of 1992, the delegation met with former U.S. Trade Ambassador Carla Hills. In September of 1992, the delegation also discussed the impact of NAFTA with Florida agriculture representatives to assess industry concerns.

On February 24, 1993, the delegation again met with individuals representing all of Florida agriculture. Very valid and significant concerns were brought to our attention outlining the economic damage NAFTA, as proposed, will have on Florida agriculture.

While many of us believe the agreement has the potential for long-term benefit to the United States, the short-term expense of NAFTA in its current form is borne in large measure by Florida agriculture.

In an effort to make NAFTA the best possible trade agreement for our country and for the State of Florida, we would like to take this opportunity to outline recommendations brought to our attention by Florida's agriculture industry.

1) Mexico's environmental protection practices must be harmonized with U.S. standards. This objective must be achieved before any tariffs or other trade provisions of NAFTA are reduced.

2) Mexico's occupational, worker safety, and health standards must also be harmonized with U.S. standards. This objective must be achieved before any tariffs or other trade provisions of NAFTA are reduced.

All retraining for displaced workers including agriculture workers in the United States must be fully funded with appropriations from the U.S. Treasury.

- Page Two -

3) To assure harmonization of the environmental and labor regulations in Mexico, provisions must be made in a side agreement to mandate the effective monitoring and enforcement of compliance efforts in Mexico.

4) A database of Mexican and U.S. agriculture, trade, production and commerce must be developed, maintained and funded in order to assess NAFTA's impact on the agriculture sector. The database should have the capability to track commodity specific data for import sensitive crops, information on the agricultural workforce, trade levels and environmental conditions in major export-producing regions.

5) A price-based and expedited special safeguard mechanism for sensitive agricultural commodities must be included in the agreement. Agricultural commodity markets are too volatile and react with too much speed to be addressed adequately with the volume-based safeguard mechanism found in the current agreement. This price-based special safeguard mechanism should apply to all import sensitive agricultural commodities. Language regarding specific commodities has already been brought to the attention of U.S. Trade Representative Mickey Kantor.

6) Mexico must not be allowed to ship to the United States any commodity which Mexico is not at the time already verifiably self-sufficient. This self-sufficiency can not be achieved by substituting another commodity in order to reduce Mexican domestic consumption of the commodity which Mexico desires to ship to the United States.

We respectfully request the inclusion of these recommendations as side agreements are formulated to the North American Free Trade Agreement. We look forward to hearing from you on these issues as soon as possible.

Sincerely,

Tom Lewis

Rep. Tom Lewis

Karen J. Thurman

Rep. Karen Thurman

Char T. Canady

Rep. Charles Canady

Corrine Brown

Rep. Corrine Brown

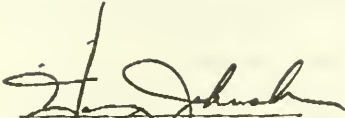
Alcee L. Hastings


Rep. Alcee Hastings

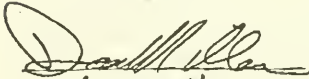
Ileana Ros-Lehtinen

Rep. Ileana Ros-Lehtinen

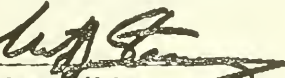
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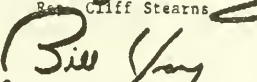

Rep. Harry Kohnston

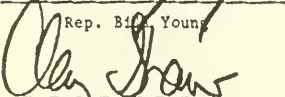

Rep. Earl Hutto

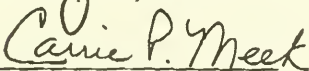

Rep. Don Miller



Rep. Lincoln Diaz-Balart


Rep. Cliff Stearns

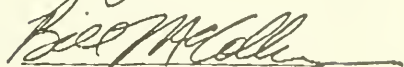

Rep. Bill Young


Rep. Clay Shaw

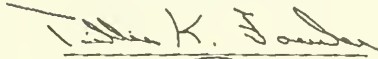

Rep. Carrie Meek

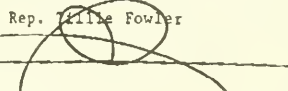

Rep. Peter Deutsch



Rep. Porter Coss

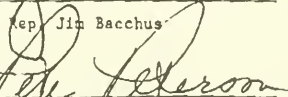

Rep. Bill McCollum


Rep. Mike Bilirakis


Rep. K. Fowler


Rep. John Mica


Rep. Jim Bacchus


Rep. Pete Peterson


Senator Connie Mack

CC:
The Honorable Mickey Kantor
The Honorable Mike Espy

Mr. LEWIS. Mr. Ambassador, as you know, with the NAFTA ledger sheet we have winners and losers. We seem to feel that Florida agriculture—including tomatoes, citrus, and sugar—is one of the big losers in this deal, particularly in the short term.

I would like to point out that the Florida losses are not because the growers or producers cannot compete, but because they are forced to compete at a disadvantage in most cases.

You have in your office a signed letter from the Florida delegation sent you identifying areas of concern and recommendations that we would like to see included in the side agreements. You have touched on many of these issues today.

But I would like for you to confirm that the six points we pointed out in the letter are on the table for negotiation with Mexico.

Ambassador KANTOR. Let me say that I have looked at this letter before. In fact, each one of these six points has been addressed and is being addressed in these discussions.

We have done so and we will continue to do so. As I said, they started about 3½ hours ago. We are taking these into very serious account. The letter is well done and addresses some important issues.

Mr. LEWIS. Thank you. We appreciate your concern for Florida. We certainly hope that you will further accept the invitation to meet with the Florida delegation to further delve into these points of interest.

Thank you, Mr. Ambassador.

Ambassador KANTOR. We will be delighted at any time.

Mr. ENGLISH. Mr. Roberts.

Mr. ROBERTS. Thank you, Mr. Chairman.

I had intended on asking a very detailed question on import surges and pointing out that if you're going to protect on import surges in one area you might actually erect a barrier in regard to export gains. I think we have already pretty well touched on that, so from that standpoint, I won't ask it.

Thank you for your patience and your perseverance. It has been a long morning and you have been extremely helpful. I know Mr. Glickman is worried about the fall of the Mexican Government. Mr. Hilliard is concerned—and rightly so—over negotiations already entered into aside from the supplemental negotiations you are endeavoring to put in place. Mr. Minge is worried about prices. I am worried about prices. Mr. English is worried about prices. Everybody here is worried about prices. All these people are worried about, what if there is a NAFTA agreement?

I want to go back to what if there is not a NAFTA agreement and we're \$2 billion in exports—and I am not going to go over all the benefits and all the counterproductive things. This reminds me a little bit about that telephone ad that used to be on television where the guy used to pick up the telephone. They would ask him a question.

"I want worker protection."

You're indicating, "I can do that."

"I want environmental safeguards."

"I can do that. I can guarantee you that I can also do the business on import surges and export gains."

"What about the trilateral commissions on labor and environment? Won't this tread on sovereignty?"

"I can do that."

"But the citizens of Mexico ought to have the ability to raise all sorts of court challenges"—or what I call the Mexican Trial Lawyers Full Employment Act.

"I can do that."

Then at the last part of the ad, he would look in the television and say, "How am I going to do this?"

I really don't know how you're going to do all of this. It seems to me that you have a little more bushy-tailed questions on the Democrat' side than our Republicans. Maybe we can whisper sweet nothings to them as this gets down to its final conclusion. They are always very amenable to that. I am not sure they are going to take our advice, but we definitely need an agreement.

You have your work really cut out for you. I don't know how you're going to do this. It seems to me that you have some paradoxes of enormous irony here that we have to resolve. But the farmer would never put the seed in the ground if he wasn't an optimist and had a little faith, so I have faith in you, sir. We will pledge to you on our side that we will work with you to the best of our ability. I wish you luck and thank you so much for your appearance.

I don't think I have asked you a question, but if you would care to make an observation, I would be delighted to hear you.

Ambassador KANTOR. I appreciate your comments. I do feel a little like the circus performer on a high wire act trying not to lose my balance as we go forward. But the President has issued this challenge to all of us to make this happen. I think in working together we can do it. It's not going to be easy.

Mr. ROBERTS. I have a small manufacturer in Osborne, Kansas. He makes more equipment connected with the pork business than you can ever imagine. We have hog warmers, hog pens, hog coolers, everything you can imagine. He just doubled his plant. With NAFTA, he says he will triple it. Value-added, small manufacturing all up and down our rural areas that everybody here is really worried about.

I think we have to have this agreement, Mr. Ambassador, so I wish you luck.

Ambassador KANTOR. Let me make just one comment. Our exports to Mexico have grown three-fold over the last few years in just a very short period of time. We have had a trade deficit just a couple of years ago and now we have a trade surplus of \$6 billion with Mexico. It is a growing market. That is the good news that hasn't been articulated here.

And let me say that it is also the good news hopefully in the future for everyone around here. That won't mean that there won't be some temporary dislocation. I would be a fool to say that there won't be. It does mean, I believe, a NAFTA with the proper supplemental agreements would be in the best interests of this country and will make the situation substantially better than it is today.

Mr. ENGLISH. Mr. Ambassador, I, too, want to thank you for coming today. I don't believe there are any further questions.

You have been very kind to sit very patiently and listen to a lot of concerns as well as questions. I don't share quite the optimism of my friend from Kansas. I and most of my district—we have for the most part unskilled labor. I don't think there is any question that those people will be in jeopardy as far as their jobs are concerned. Those plants that do stay in the United States with unskilled labor I think will be at a disadvantage to those that moved to Mexico or to plants that may be in Mexico because of the cost of labor.

As I have stated with regard to many of our agricultural products in which we do have import limits, I am concerned about the enforcement. I have to say that you do give me some comfort with regard to the language. I do want to talk to Secretary Bentsen to see if we can get some comfort and some commitments with regard to the enforcement, if that should go through, because I think that is going to be critical as far as our agricultural industry is concerned.

But I am particularly perturbed at many of those who are advocating this package. They're talking about the real benefits coming about 10 years down the road. In many of our areas—certainly in my district—the economy is so precarious that if we have to wait 10 years for something good to happen, we are in deep trouble. We need particular attention focused on that transition period. I am very encouraged that the President of the United States has indicated that he does want to move in that direction. And certainly for those who are unskilled, he does want to try to address that and deal with that problem. For that, I certainly want to commend him.

I appreciate you working with us and I appreciate your attitude and your efforts on our behalf. I am hopeful that we will in fact be able to call this a true free-trade agreement in the future. As you pointed out, it is not really that as it stands today. But I think all of us in agriculture understand that it is to our best interest to have a true free-trade agreement.

Ambassador KANTOR. Thank you.

Mr. ENGLISH. With that, I want to thank you, Mr. Ambassador, and we look forward to working with you in the future.

Ambassador KANTOR. Thank you. I appreciate it.

Mr. ENGLISH. With that, we will recess subject to the call of the Chair.

[Whereupon, at 1 p.m., the committee was adjourned, to reconvene, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

TESTIMONY OF AMBASSADOR MICKEY KANTOR,
UNITED STATES TRADE REPRESENTATIVE
BEFORE THE COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES

March 17, 1993

Mr. Chairman, I appreciate the opportunity to appear before the Committee today to discuss a strengthened North American Free Trade Agreement (NAFTA) and the on-going Uruguay Round of multilateral trade negotiations. This is my first appearance before this Committee, and I welcome the occasion to become more familiar with your concerns and those of other members of the Committee.

I want to thank you, in particular, Mr. Chairman, for your suggestions for a North American Commission on the Environment and subcommissions to address specific transborder environmental problems. I appreciate your work on the complex problems facing the U.S.-Mexico border area and the Gulf of Mexico. I hope that we will have many opportunities to work together on these issues in the months ahead to find creative solutions.

This morning I would like to place the NAFTA and the Uruguay Round in the broader context of the President's vision of economic growth in America based on expanded trade and market opening: competing in, not retreating from, the global economy. Then I would like to address specifically some of the agricultural trade issues currently facing us.

The trade policy of this Administration starts from the same point as its economic policy does: our prosperity and that of our children depend on our ability to compete and win in the global market. Where trade policy is concerned, the United States will continue to champion open markets and expanded trade, but we will insist that the markets of other nations be open to our products and services -- especially U.S. farm exports.

Opening foreign markets is the impetus, from our standpoint, for the NAFTA, and our main objective in the Uruguay Round. Market access will also be a principal focus of our bilateral efforts with respect to many nations around the world. We see our prosperity bound up with the prosperity of our trading partners -- especially in Canada, Europe, Japan and Mexico. We will work with them to promote global growth, aid the development of other less prosperous nations, and address the emerging issue of environmental protection.

NAFTA. President Clinton has consistently affirmed his support for the NAFTA, provided it is accompanied by effective U.S. domestic policies and supplemented by domestic actions and supplemental agreements to address concerns regarding labor, the

environment, and safeguards against import surges. Addressing these concerns does not mean re-opening the NAFTA text. Our goal is rather to negotiate the necessary supplemental agreements and to work with Congress to develop implementing legislation so that the NAFTA, the supplemental agreements and domestic measures can be in place by January 1, 1994.

Today our negotiators, led by Ambassador Rufus Yerxa, begin the process of negotiating the supplemental agreements to which the President is committed. These supplemental agreements must break new ground in finding ways to help raise worker standards and environmental protection; in these areas we are committed to agreements that harmonize upward, not downward. In these negotiations we will be dealing with issues, and fashioning provisions, that have never been part of a trade agreement. For example, President Clinton is committed to the creation of a tri-national commission on the environment and I look forward to hearing further views from the Committee on how such a commission might work. I am also aware of this Committee's concerns about adequate provisions to address surges of agricultural imports. With regard to import surges, we are not looking to change the mechanisms in NAFTA, but rather want to ensure that these provisions can be effectively and fairly used.

We will not sacrifice substance for speed; we will not ask you to vote on NAFTA until the supplemental agreements are completed and you can judge how they strengthen the NAFTA. This Administration will not come to the Congress for approval of the NAFTA without supplemental agreements that have real teeth, meaningfully advance their objectives, are concrete, and contain serious commitments.

An enhanced NAFTA package can contribute to the ability of our farmers to compete at home and abroad and can help improve working conditions, living standards, and environmental quality throughout North America. After Japan, Canada and Mexico are our second and third largest markets for U.S. agricultural exports. Since 1986, U.S. agricultural exports to Mexico have nearly quadrupled, climbing to almost \$4 billion in 1992 and establishing Mexico as our fastest growing export market for farm-produced goods. In fact, our two neighbors accounted for more than 20 percent (\$8 billion) of U.S. agricultural exports in 1992.

The NAFTA contains separate bilateral undertakings on cross-border trade in agricultural products, one between Canada and Mexico, and the other between Mexico and the United States. As a general matter, the rules of the U.S.-Canada Free-Trade Agreement (FTA) on tariff and non-tariff barriers will continue to apply to agricultural trade between Canada and the United States.

The U.S.-Mexico agreement on market access represents a significant change in the status quo. Upon implementation of the NAFTA, tariffs and tariff-rate quotas will replace current non-tariff barriers in U.S.-Mexico agricultural trade. Roughly one-half of U.S.-Mexico trade will be duty free at the moment the agreement goes into effect. Nine years later, all agricultural tariffs between the United States and Mexico will be eliminated, except duties on certain highly sensitive products. Barriers on U.S. imports of sugar, peanuts, orange juice and a few fruits and vegetables will not be eliminated until the fourteenth year after the Agreement takes effect. At the same time, Mexico will eliminate its barriers on corn, dry beans, powdered milk, sugar and orange juice. The bottom line is that the NAFTA should give U.S. agricultural producers significant opportunity in our fastest growing export market. We expect particular benefits for our exports of beef, pork, poultry, eggs, dairy products, grains and oilseeds.

The NAFTA also contains strong provisions, in Chapter 7, safeguarding the ability of our federal and state governments to set the standards they deem appropriate to limit exposure to pesticide residues and other additives and contaminants.

The Uruguay Round. President Clinton is committed to the successful completion of the Uruguay Round of multilateral trade negotiations which has been on-going since 1986. My predecessors expended enormous effort for six years to obtain acceptable Uruguay Round agreements. However, several complex issues remain to be resolved. The Clinton Administration, in consultation with the private sector and Congress, is assessing the accomplishments to date, and focusing on the remaining obstacles to be overcome before the Round is completed. I think we can complete the Round in a way that will benefit the United States and the world economy, but based on our discussions to date, I do not believe that we were as close to completion as some reported in early January. When the EC Trade Minister, Sir Leon Brittan, was here in February, I told him that our goal was a good agreement, not just a quick one.

The Administration is carefully reviewing the agreement on internal support and export subsidies reached between the United States and the EC at Blair House last November, and we must resolve with the EC a number of questions regarding the implementation by the EC of that agreement and the draft Uruguay Round text on agriculture.

The question of whether we can conclude an agreement depends very much on the market access commitments for goods and services that are still being negotiated. If we obtain good results on market access -- cutting tariffs, breaking down non-tariff barriers -- the Round will offer significant potential benefits for the American farm community. The Department of

Agriculture has estimated that a successful Uruguay Round agreement would expand U.S. agricultural exports by \$6 to \$8 billion annually after 5 years, and add \$1 to \$2 billion to farm income.

We chose to announce the Administration's decision to seek the renewal of fast track procedures when Sir Leon Brittan was here because the Round depends, in the first instance, on U.S. and EC leadership in setting out the ambitious objectives to be achieved in areas such as market access. The three-year deadlock between the rest of the world and the EC over agriculture stalemated the Round and gave other nations, most notably Japan, the ability to avoid contributing meaningfully to the successful completion of the talks. We will not complete the Round without some leadership by the United States and the EC. Nor will we complete it if Japan continues to behave as if it has little stake in the outcome. In the Round we will continue to insist on meaningful access to Japan's rice market. We also need to see significant contributions from other trading partners -- the newly-industrializing countries in Asia and Latin America -- and the developing countries who owe their economic gains to a strong, open multilateral system.

Bilateral initiatives. While we work to conclude the NAFTA supplemental agreements and the Uruguay Round, we will continue to use our trade laws and the dispute settlement provisions of our trade agreements to open foreign markets and break down barriers to specific U.S. agricultural products. We have our share of current difficult issues with the EC, which I will discuss with Sir Leon Brittan when we meet again later this month. We will continue to press the EC to implement fully the commitments it made to us on oilseeds, corn gluten feed, and malt sprout pellets. I also will meet early next month with Canadian Trade Minister Michael Wilson, to explore what further can be done to ensure that Canadian wheat shipments to the United States are in conformity with trading rules.

As this Committee knows, we currently export over \$40 billion in farm products annually. That represents about 30 percent of the total value of U.S. farm production. We are not a perfectly open market, of course, but because of history, practice, and our concern for maximizing consumer choice, the U.S. market will always be basically open. Consequently, we plan to use every tool at our disposal -- multilaterally where possible, and bilaterally where necessary -- to make sure that other markets are comparably open to our own.

Mr. Chairman, I welcome the opportunity to answer questions from members of the Committee.

THE NATIONAL GRANGE



STATEMENT OF
ROBERT E. BARROW
MASTER OF
NATIONAL GRANGE
SUBMITTED TO
HOUSE AGRICULTURE COMMITTEE

APRIL, 1993

RE: NORTH AMERICAN FREE TRADE AGREEMENT

Family Farm Organization Serving Rural America

THE NATIONAL GRANGE, 1616 H STREET, N.W. WASHINGTON, D.C. 20006

I am Robert E. Barrow, the duly-elected Master of the National Grange, which has offices at 1616 "H" St., N.W., Washington, D.C. The National Grange represents approximately 300,000 farmers and other residents of rural America in over 4,000 local communities across the United States.

The central problem for every free market economy is to keep supply and demand in balance. Agriculture has been struggling with supply and demand, in spite of production control programs, for over 60 years, and no end is in sight unless we have a structural increase in demand.

Agriculture needs new customers and new markets in order to grow and prosper. Where can we find them? For starters, we can look south to Mexico; then beyond to Central and South America.

The National Grange has followed the development of the North American Free Trade Agreement (NAFTA) since its inception more than two years ago. As a member of the Agricultural Policy Advisory Committee on Trade, I have personally been involved in the events that led up to the three Heads of State initiating the Agreement in the late summer of 1992.

The voting delegates to the National Grange's 126th Annual Convention strongly supported the NAFTA. In 1991, in the early stages of the negotiations between the United States, Canada, and Mexico, the Grange adopted the following resolution:

"The National Grange supports the efforts of the United States, Mexico, and Canada to reach a North American Free Trade Agreement. To provide protection to

the producers of import-sensitive commodities, we recommend the following:

- 1) The U.S.-Canadian agreement phases out tariffs over a 10-year period, but many of the U. S. domestically-produced and processed products will vigorously compete in the United States' market with products that are produced and processed in Mexico. The United States' tariff phase-out period should be for a longer period of time than 10 years, and the commodity coverage under the General System of Preference should be terminated.
- 2) The NAFTA should also provide for a temporary "snap back" restoration of tariffs during the peak harvesting season or during times of import surges of agricultural commodities that are above the trend line for that commodity.
- 3) In addition to these two general provisions that would apply to all commodities, there are some products that may need to have special arrangements made to help their industries adjust over a longer period of time to a free trading environment.
- 4) We recommend: a) establishment of minimum technical standards regarding pesticide use, quality control, and disease control; b) protection of intellectual property rights, including plant variety trademarks and brand names; c) strong so-called country-of-origin protection that would protect U.S. producers and processors from

competition from transshipment of Third Country products into the United States via Mexico's NAFTA provisions; and d) elimination of Mexico's import licenses that greatly reduce the amount of goods that are available for export and the product registration rules that make it time consuming and costly to gain access to Mexico's consumer markets."

We have determined that the agreed-to NAFTA meets the National Grange's primary recommendation; therefore, we firmly support its approval by the U. S. Congress.

Following the completion of the negotiations in August of 1992, the National Grange met in November '92, in Denver, CO, for its 126th Annual Convention. At that time, the voting delegates reaffirmed the above policy and adopted the following:

"The Grange must continue to support expanding trade on a mutually beneficial basis. The success of the North American Free Trade Agreement (NAFTA) will be instrumental in accomplishing some of these objectives and the Grange should give it strong support."

The Grange believes that the NAFTA, on the whole, will be beneficial to the economic growth of the United States, Canada, and Mexico. The greater economic activity will be between the United States and Mexico because the majority of the NAFTA's provisions have already been implemented under the U.S.-Canada Free Trade Agreement (U.S.-CFTA). This is particularly true for agriculture because Canada chose not to enter into most of the

agricultural negotiations in the NAFTA, leaving the U. S. farmers to reap the increase in farm trade.

As the International Trade Commission's report pointed out, the NAFTA's impact on the United States will vary by region and product. The report "Potential Impact on the U.S. Economy and Selected Industries of the North American Free Trade Agreement", which was written by the Commission, stated it correctly - that there would be short-term and long-term effects by the trade agreement. The report said, in part, that the NAFTA is expected to expand U.S.-Mexican trade substantially. The estimated gains in U.S. exports to Mexico range from 5.2% to 27.1%. The projected increases in U.S. imports from Mexico range from 3.4% to 15.4%.

The projected long-term gains in aggregate employment are less than one percent for the United States and Canada, but are up to almost seven percent for Mexico. The expected increases in the average real wages are 0.3% or less for the United States, 0.5% or less for Canada, and 0.7% to 16.2% for Mexico. Although the evidence on the direction of real wage effects for low- and high-skilled U.S. workers is mixed, the preponderance of evidence indicates an indiscernible effect on the United States' wage rates for both low- and high-skilled workers.

According to the report, Mexico's improved access to advanced technology could lead to a long-term increase in Mexico's rate of economic growth. As longstanding participants in a global open trading regime, the United States and Canada may not realize substantial dynamic gains from the NAFTA, but will benefit from

the market opportunities that are created by the economic growth in Mexico.

The NAFTA will raise the standard of living in Mexico, creating new markets for U. S. products, including those from our farms. At the same time, the economic activity in Mexico, as a result of freer trade between 360 million consumers, will result in increased employment in Mexico, alleviating part of the human misery that drives Mexican citizens across the Rio Grande to seek illegal employment in the United States. It will also provide the economic steam engine to help Mexico improve its labor and environmental standards. Without the NAFTA, there is no assurance that these things will ever happen. Which is the better hemisphere to live in - pre-NAFTA or post-NAFTA?

The NAFTA will create new, long-term growth opportunities for U.S. farm exports in the Western Hemisphere far into the next century. The USDA's Office of Economics' most recent appraisal of the Agreement's impact on agricultural trade contains the following:

"In the year 2008, when the Agreement is fully implemented, U.S. farm exports are estimated to be \$2 to \$2.5 billion higher than without the Agreement. Most of that will be gains in U.S. farm exports to Mexico. Farm exports to Mexico have been on an upswing due primarily to Mexico's lowered barriers to U.S. agricultural imports at the same time its economy boomed."

The further lowering and eventual removal of Mexico's tariff and non-tariff barriers to trade will result in further increases in U.S. farm exports. This will be true for a large number of United States' agricultural commodities.

The NAFTA's provisions are well known to you and the members of your Committee. We believe that there are sufficient safeguards and other measures to protect the import-sensitive commodities. Designated quantities of these safeguarded products may enter at a low tariff, with imports larger than those quantities paying a higher tariff. The United States can apply such safeguards to a wide range of impacted commodities, including fresh tomatoes, eggplants, chili peppers, squash, watermelons, and onions.

There are other safeguards built into the NAFTA. The products that receive favorable tariff treatment must originate (or be substantially transformed, such as through a manufacturing process) in Mexico, Canada, or the United States. Under the Rules of Origin, a country cannot import farm goods and ship them to a NAFTA partner under the Agreement's more favorable tariff treatment. Mexico's tariffs with other countries will not be changed by the NAFTA.

Opponents of the NAFTA argue that the Agreement will result in unsafe food entering the United States because of another country's lower standards. Under the NAFTA, we can maintain our stringent standards for health, safety, and the environment, and prohibit imports that do not meet the United States' standards.

State and local governments can enact their own import standards if they are based on scientific grounds. Each country in the Agreement can maintain the grade standards to fit its marketing rules. The local content requirements of Mexico's manufacturing rules will be eliminated under the Agreement, opening up new markets for U.S. goods.

Some of the highlights on increased U.S. farm exports to Mexico under the NAFTA are: 20% increase in wheat, 2.5 million ton duty-free quota for corn that will increase 3% each year, 10% to 20% increase in rice, \$400 to \$500 million increase for soybeans, 8% rise in peanut exports, pom fruits (peaches, apples, and pears) may nearly double, 20,000 ton increase in milk powder, and increased exports of pork and hogs.

We live in a global economy, and no sector of the United States' economy can escape that fact. The fastest growing sector of our economy is our exports, and Mexico is an important part of that growth. The NAFTA will lock in the gains in exports we have made with Mexico and open new opportunities for growth.

New trade agreements will be more important to the restructured United States' agricultural sector and rural America than any new farm bill. U.S. agriculture heavily depends on exports. About one-third of our production is sold to foreign customers. If we are to just maintain the present agricultural productivity, let alone bring back the millions of acres that are now being held out of production, help preserve family farms, and enhance rural America, we have no choice but to expand agricultural

exports. Otherwise, we must take resources out of agriculture in order to maintain a balance between supply and demand at reasonable prices. That means even fewer farms and fewer farmers.

Mexico is just the beginning. Three-quarters of mankind lives in squalor. Our economic future lies in using our nation's productive capacity to relieve the awful suffering of the great bulk of the world's people. No amount of foreign aid can accomplish this task. Only foreign trade holds the key to world prosperity.

We strongly support the NAFTA, and urge its approval by the U.S. Congress. To conclude that the United States stands to lose by eliminating trade barriers with Mexico, a small economically-depressed nation, takes some mighty creative reasoning. In the short run, we may have to restructure parts of our economy so that poorer nations can more robustly consume our farm and industrial goods and services in the long run. The world had to restructure demand to bring about an end to the Great Depression. World War II was the primary reason behind that restructuring. Now we have a chance to accomplish it through peaceful means - trade expansion through regional and international trade agreements.

The Grange will have to wait and see what the President's side agreements on labor and the environment bring before we can endorse their content. However, we do not believe that a side agreement on import surges is necessary because there is ample protection in the present Agreement's language.



A recently released study by the Canadian-American Committee, a bi-national group of prominent business, labor, agricultural, and academic leaders which is co-sponsored by the Toronto-based C. D. Howe Institute and the Washington-based National Planning Association, said the negotiators of the side agreements on labor and the environment have a difficult challenge ahead.

The study made the following important points that I would like to draw to your attention:

- * "Too forceful a position in favor of a maximal approach to labor and environmental issues could gut the trade liberalization provisions of the NAFTA or cause it to collapse altogether."
- * "People who are enthusiastic about raising labor and environmental standards in North America - and particularly in Mexico - should be mindful of the importance of strong commercial relations in achieving those ends."
- * "The closer ties between the three countries as a result of the NAFTA will increase the mutual interest in domestic policies, even to the point of an American equivalent to the European Community's 'Social Charter'. But it cautions against agreements that could become potent weapons in the hands of protectionists, or that could undermine each country's flexibility in dealing with distinctive labor and environmental issues."

- * "Increased trade opportunities made available to Mexico via the NAFTA is a better way to gain agreement on these issues than threatening sanctions."

One of the authors of the study, Peter Morisi, the head of the Canadian-American Center at the University of Maine, said, "There is strong economic logic for the side deal negotiations. Nonetheless such discussions are no more and no less an affront to Mexican sovereignty than Mexican efforts to seek constraints on U.S. and Canadian application of dumping and other trade remedy laws would be an affront to U.S. and Canadian sovereignty."

A complete copy of the report can be obtained from the National Planning Association, 1424 16th St., N.W., Suite 700, Washington, D.C. 20036. I would like to encourage the members of the Committee to obtain a copy.

Thank you for allowing the Grange to present its position on this matter. We would like to request that this statement be made part of the hearing record on the NAFTA.

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